

U.S. ENVIRONMENTAL PROTECTION AGENCY,  
REGION 10  
CLEAN WATER STATE REVOLVING FUND PROGRAM

# PROGRAM EVALUATION REPORT

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ALASKA CLEAN WATER FUND  
SFY 2003-2004



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY**  
**REGION 10**  
1200 Sixth Avenue  
Seattle, WA 98101

Reply to  
Attn Of: OWW-137

Lynn Kent, Director  
Division of Water  
Department of Environmental Conservation  
555 Cordova Street  
Anchorage, Alaska 99501

RE: Alaska Clean Water State Revolving Fund  
Program Evaluation Report for SFYs 2003-2004

Dear Ms. Kent:

The US Environmental Protection Agency (EPA) has completed the 2003-2004 annual review of Alaska's Clean Water State Revolving Fund (CWSRF) as required by section 606(e) of the Clean Water Act. I have enclosed the 2003-2004 Program Evaluation Report (PER) of the Department of Environmental Conservation's (ADEC) CWSRF program which has been prepared by my staff for Alaska's CWSRF program.

The PER takes a new form this year in response to guidance published March 2004 governing how the EPA's regional offices structure and conduct their legally required annual program evaluations of the clean water state revolving loan funds. The report consists of several related documents. The first document is a narrative that articulates our findings, documents our reviews of loan project files and provides explanatory information, where necessary, for a set of completed review questionnaires. Those review questionnaires are incorporated into the second document, which is presented as a set of completed Excel worksheets. Those worksheets frame the questions that guided the EPA's annual performance review of the CWSRF.

In the past few years the Alaska program has developed and implemented an integrated planning and priority setting system for ranking projects that are candidates for financial assistance from the fund, set aside 20% of total funds available in any given year to fund projects that implement Alaska's Nonpoint Source Management Plan, and was one of several states that was an active participant in helping EPA better document the environmental results being obtained from the CWSRF. Each of these actions demonstrates ADEC's continuing commitment to the success of the program.

The PER notes three areas where actions by ADEC are required. First, ADEC needs to repay the EPA \$223,155 and transfer an additional \$44,642 from the State Treasury to

the Alaska Clean Water Fund account to repay inappropriately drawn state match funds. Second, ADEC needs to obligate \$30 million dollars of principal and interest repayments the fund has accumulated over the years before the FFY05 capitalization grant will be awarded. And finally, ADEC needs a new Operating Agreement governing the administration of the Fund which reflects changes to state program regulations and procedures, cross-cutting federal authorities, and other structural and programmatic changes that have occurred since the original Operating Agreement was signed in 1988. We note that ADEC has made significant progress towards meeting the \$30 million dollar obligation target. In addition, ADEC has begun working with EPA on the new Operating Agreement. If the ADEC would like to provide additional comments on this PER or describe the corrective actions that the ADEC will implement and provide a schedule for those actions, we will revise the PER so that the document recognizes those plans.

We appreciate the time that your staff, particularly Mr. Bill Griffith, Mr. Mike Lewis, Mr. Butch White, Ms. Terri Lowell, Mr. Dan Garner, and Ms. Susan Randlett, spent in assisting us during our review and commenting on the draft version of the PER. If you have any questions regarding the enclosed report, please call me at (206) 553-7151, or contact Michelle Tucker at (206) 553-1414. We look forward to continuing to work with you in your efforts to manage the Alaska Clean Water Fund and to protect and improve water quality in the State of Alaska.

Sincerely,

Michael F. Gearhead, Director  
Office of Water and Watersheds

Enclosure (1)

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## EXECUTIVE SUMMARY

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This report presents the Environmental Protection Agency's (EPA's) evaluation of the performance of the Alaska Department of Environmental Conservation (ADEC) in its administration of the Alaska Clean Water Fund during State Fiscal Years (SFY) 2003 and SFY 2004. Our review was conducted pursuant to the Annual Review Guidance for the State Revolving Fund Programs (Interim Final) published by the EPA's Office of Water in March 2004.

In accordance with that guidance, this report is organized into the following components:

- This Executive Summary.
- A narrative statement that summarizes program highlights and discusses the follow-up actions that ADEC has implemented since the EPA's most recent Program Evaluation Report (PER) on the Alaska Clean Water Fund was published.<sup>1</sup>
- An annotated program review checklist for both programmatic and financial elements of revolving fund administration (Attachment I).
- Explanatory notes for those items in the review checklist that merit additional discussion (following the program highlights).
- Project file review checklists (Attachment II).

This report reflects the EPA's examination of the following types of records:

- The Operating Agreement between the EPA and ADEC governing the administration of Alaska's Clean Water Fund.
- The grant agreements associated with each of the open EPA capitalization grants to ADEC.
- The Intended Use Plans (IUPs) for the Alaska Clean Water Fund for SFY 2003 and SFY 2004.
- Records of financial transactions maintained by the EPA and ADEC
- The annual reports submitted by ADEC for SFY 2003 and SFY 2004.
- Project loan files maintained by ADEC.

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<sup>1</sup> That report was published April 2002 and evaluated the program's performance for SFY 2000-2001.

- The independent financial audits of Alaska's Clean Water Fund for SFY 2003 and SFY 2004.

As part of our review, the EPA visited the Department of Environmental Conservation for several days during the week of January 24, 2005. During that visit in Juneau, we met with ADEC staff to discuss and review several components of ADEC's financial management system. We also reviewed loan files for three loans. The results of these loan file reviews appear later in this report.

The Alaska Department of Environmental Conservation is faced with some significant challenges in the operation of its clean water state revolving fund, particularly to ensure that loan volume is increased. Fortunately, ADEC has a dedicated and competent staff in both its central and regional offices and it uses an integrated planning and priority setting system to allocate fund resources in a manner that maximizes the potential water quality benefits of the projects receiving financial assistance from the Fund.

Based on our review of the Alaska Clean Water Fund's performance in SFY 2003 and SFY 2004, we have identified the following matters for which corrective action by the Department of Environmental Conservation is warranted:

1. The state of Alaska must repay the Environmental Protection Agency \$223,155 that was inappropriately drawn from various capitalization grants. See the discussion at page 11.
2. The state of Alaska must transfer \$44,642 from the State Treasury to the Alaska Clean Water Fund account to repay inappropriately drawn state match funds. See the discussion at page 11.
3. The Alaska Clean Water Fund must obligate at least \$30 million dollars before the FFY 2005 capitalization grant will be awarded. To be clear, "obligating" \$30 million consists of any combination of increases in loans, new loans signed, or funds transferred to Alaska's Drinking Water Fund. See the discussion at page 11.
4. The Department of Environmental Conservation has agreed to work with the EPA to develop a new Operating Agreement governing the administration of the Fund which reflects changes to state program regulations and procedures, cross-cutting federal authorities, and other structural and programmatic changes that have occurred since 1988. See the discussion at page 10.

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## PROGRAM HIGHLIGHTS

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The Alaska Department of Environmental Conservation's (ADEC) Division of Water manages Alaska's Clean Water State Revolving Fund (established in state statute as the Alaska Clean Water Fund), Drinking Water State Revolving Fund, a state Municipal Matching Grants Program and the Village Safe Water Program. This suite of programs provides a broad range of financing mechanisms for water quality related environmental infrastructure in the state. This report focuses solely on Alaska's Clean Water Fund.

The Alaska Clean Water Fund (ACWF) received its first capitalization grant from the Environmental Protection Agency (EPA) in November 1988. Through the end of SFY 2004 it had received a total of approximately \$130 million in EPA capitalization grants. These grants were matched by the State with approximately \$26 million in capital contributions. Historically, the ACWF received its match from appropriated funds from the Alaska State Legislature. Beginning with SFY 2001, the ACWF chose to issue a short-term bond instrument for the state match and use the interest earnings (investment interest and interest payments on loans) to retire the bond. Total funds available to the program through the end of SFY 2004, including Fund interest earnings over the life of the program, principal, and interest repayments, was approximately \$232 million. The Fund has always been operated as a direct loan program (The state has never leveraged the Fund by issuing bonds to increase the annual dollar volume of assistance that it could provide to eligible projects).

The Alaska Clean Water Fund offers assistance to projects eligible under Sections 212 and 319 of the Clean Water Act (CWA). While the CWSRF is also available to fund CWA §320 projects, Alaska has no such federally designated estuaries. Every year ADEC develops an Intended Use Plan (IUP) that documents the total dollars and sources of funds available for the upcoming state fiscal year and all projects which have applied for possible funding shown on the Funding Priority List and the Planning Priority List. In addition, ADEC indicates which projects it intends to fund in the coming year based on the priority ranking score of each project and its readiness to proceed with construction.

As of January 24, 2005, the Fund had executed approximately \$187 million in loans. Within this universe of projects, the Fund offered approximately \$141.3 million worth of loans for publicly owned treatment works and \$45.7 million in assistance to projects that implemented the state's nonpoint source water quality strategy.

In SFYs 2003 and 2004 the Alaska Clean Water Fund continued to offer some of the lowest interest rates in the nation available from state water pollution control revolving funds. Loans for one year or less were offered to communities with a zero percent interest rate and a 0.5% finance charge. Loans with a maturity of one to five years were offered with an interest rate of 0.5% and an annual fee of 0.5%, effectively a 1% interest

rate for the communities. Loans with a maturity of six to 20 years were offered with an effective rate of 2.5%, an interest rate of 2% and an annual fee of 0.5%.

In SFY 2003, ADEC made some significant changes to its water quality financial assistance program. During the course of the fiscal year, ADEC designed an Integrated Priority and Planning Setting System (IPPS) that based the scoring and ranking of projects based on the assessed water quality priorities of the State. After completing the public review cycle, this new ranking system was in place for the SFY 2004 IUP. One significant change in the funding priorities for the ACWF was the decision to set aside 20% of the total funds available in any given year to fund projects that implement the State's Nonpoint Source Management Plan. If ADEC doesn't sign loans for the full amount of the nonpoint source set-aside then the remaining funds available are used to fund traditional Section 212 projects.

During SFY 2004 and SFY 2005 the EPA started a pilot effort at better documenting the environmental results being obtained from its water infrastructure finance programs. The Alaska Department of Environmental Conservation was one of several states that was an active participant in that pilot effort. Based on ADEC's experience with the pilot, as well as the experiences of the other pilot states, the EPA was able to incorporate a simplified system for reporting environmental results for state revolving fund programs into the SFY 2006 grants management guidance.

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## **FOLLOW-UP FROM THE EPA'S LAST PROGRAM EVALUATION**

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The EPA issued a Program Evaluation Report (PER) of Alaska's Clean Water Fund for SFYs 2000 and 2001 on April 2002. That report identified two topics where prompt action by the Department of Environmental Conservation was necessary. Additionally, it reinforced recommendations that the EPA had offered in a previous PER. ADEC provided the EPA with a letter July 24, 2002 that articulated its response and actions to the first required action. On October 7, 2002 ADEC submitted a letter detailing its response and actions related to the second PER required action. The current status of the subjects addressed in the SFY 2000 and 2001 PER is discussed below.

### **SFY 2000-2001 REQUIRED ACTIONS**

DEVELOP AND IMPLEMENT A STANDARD PROTOCOL FOR EVALUATING EACH LOAN APPLICANT'S ABILITY TO REPAY THE LOAN AND DOCUMENTING THAT EVALUATION AND ITS RESULTS IN THE PROJECT FILE

This requirement has been met. ADEC developed three internal documents for use by the ACWF staff: standard protocol for evaluating loan applications, procedures for documenting these evaluations, and a new Alaska Clean Water Fund Application Form that contained necessary financial information. ADEC held one training session of the documentation procedures with the ACWF staff during a monthly conference call on May 30, 2002 and planned additional trainings for later that year. All ACWF staff were to begin utilizing the new standard protocol for evaluating a loan applicant's ability to repay and documenting these evaluations in the project files effective SFY 2003. When EPA conducts the SFY 2005 review of the ACWF, file(s) from project(s) that signed loans in SFY 2003 will be checked to ensure that ACWF staff are using the new protocol.

AUDIT OF THE TWO SFY 2000 LOANS TO THE NORTH SLOPE BOROUGH THAT ADVANCE REFUNDED SOME OF THE BOROUGH'S EXISTING GENERAL OBLIGATION DEBT TO VERIFY COMPLIANCE WITH 40 C.F.R. §35.3120(b)(2)

This requirement has been met. The State of Alaska CWSRF program staff made arrangements to have an independent review of the North Slope Borough completed September 28, 2002 and submitted the results of that review to EPA on October 7, 2002. The reviewers verified that there were more than \$30 million in eligible receipts for sewer project work expended on the Wainwright and Anaktuvuk Pass sewer projects and that they were paid for by monies from the six referenced bond series. However, EPA did not require the audit to address specific detailed project cost(s) eligibility, so no inference should be taken regarding these. Accordingly, EPA accepts the results of this

review as sufficient to indicate that the requirements contained in 40 C.F.R. §35.3120(b)(2) have been met.

### **SFY 2000-2001 RECOMMENDED ACTIONS**

AS PART OF THE STATE'S EFFORT TO DEVELOP AN ALASKA CLEAN WATER ACTION PLAN, THE ADEC SHOULD CONSIDER EVALUATING HOW IT IS USING ALL OF THE FUNDS AVAILABLE FOR CAPITAL PROJECTS TO MEET THE STATE'S HIGH PRIORITY WATER QUALITY NEEDS

This recommendation has been implemented. As previously mentioned, during SFY 2002 ADEC developed an Integrated Planning and Priority Setting System (IPPSS) based on the State's water quality priorities. The ACWF originally planned to incorporate Alaska Clean Water Actions (ACWA) data into its priority ranking structure, however ACWA ran into significant delays and the ACWF decided to proceed without this data. Instead the ACWF decided to proceed using the State's approved nonpoint source management plan and §303(d) listed waters to design the new scoring criteria. The State's IPPSS submission to EPA stated its plan to reevaluate the scoring criteria in a few years and hope that it would be able to incorporate ACWA's database. The ACWA program brings the State resource agencies, DEC, Fish and Game, and DNR, together to deal with state waters in a coordinated and cooperative method, assuring state resources are used on the highest priorities.

ACWA was created through Administrative Order 200. This directive told Alaska resource agencies to work together to characterize Alaska's waters in a holistic manner; sharing data, expertise and other information. ACWA's database of priority waters and identified stewardship actions is a product of this collaboration. The three state resource agencies, Alaska Department of Environmental Conservation, Department of Fish and Game, and Department of Natural Resources also conduct an annual joint matched-solicitation for water quality project using funds that are passed through from federal monies. Projects to restore, protect, or conserve water quality, quantity, and aquatic habitats on identified waters are considered.

EPA would like to encourage the ACWF to again look at incorporating ACWA's database into the scoring system of their IPPSS. Additionally, EPA would recommend ACWF staff incorporate some of the money set aside to fund nonpoint source projects into ACWA's annual coordinated funding cycle.

ADEC SHOULD MAKE EFFECTIVE USE OF THE SRF FINANCIAL PLANNING MODEL IN FUTURE ECONOMIC DECISION-MAKING CONCERNING THE PROGRAM

This recommendation has been implemented using a financial model developed by the State.

REVISE STANDARD LOAN AGREEMENT TO INCLUDE TERMS AND DOLLAR AMOUNT OF LOAN ON THE SAME PAGE

This recommendation has been implemented. EPA has a copy of a sample ACWF agreement and both the terms and dollar amount of the loan are now clearly stated in the first paragraph of this document.

INDICATE MORE CLEARLY IN THE FILE RETAINED BY EACH PROJECT OFFICER (IN ADDITION TO THE PROJECT FILES RETAINED IN THE JUNEAU OFFICE), THE AMOUNT AND DATE OF SUBSEQUENT LOAN INCREASES

This recommendation has been implemented. Of the three files reviewed, only one loan had a subsequent loan increase, which was clearly documented.

INDICATE MORE CLEARLY IN THE FILE RETAINED BY EACH PROJECT OFFICER (IN ADDITION TO THE PROJECT FILES RETAINED IN THE JUNEAU OFFICE), THE LOWER LOAN RATE AND A NEW AMORTIZATION/REPAYMENT SCHEDULE

This recommendation has been implemented. EPA staff reviewed three files; a lower interest rate applied to only one, and the file contained documents relating to a lower interest rate and/or new repayment schedule.

INCLUDE IN THE FILE RETAINED BY EACH PROJECT OFFICER COPIES OF THE MBE/WBE REPORTING FORMS THAT ARE SUBMITTED QUARTERLY TO THE REGION

This recommendation has been implemented

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## CURRENT PROGRAM EVALUATION TOPICS

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### REQUIRED PROGRAM ELEMENTS

#### ANNUAL REPORT

The annual report for each fiscal year (SFY 2003 and SFY 2004) were each a month late. This delay appears to be the result of ADEC's desire to have audited financial statements contained in the annual report. As it is a standard grant condition to send the annual report to EPA within 90 days of the close of the State Fiscal Year, EPA needs official notification (via either letter or email) if the State will not be sending the annual report by the September 30<sup>th</sup> deadline. EPA appreciates the effort ADEC makes to ensure timely audits each year.

The annual reports are thorough and include an extensive set of exhibits. They provide a useful picture of how the Fund's loan portfolio is currently structured, how that structure has changed during the fiscal year, binding commitments that have been made, and detailed accounts of cash draws. EPA requests that in future annual reports the "History of Disbursements" exhibit be modified to include lines for entering the administrative cash draws for the state fiscal year and cumulative amounts.

Improvement is needed in three areas, reporting on short and long term goals, timely and expeditious use of funds, and how/when/why bypass procedures were implemented.

- **Short and Long Term Goals** - ADEC should improve its report on progress made towards accomplishing short and long term goals. For goals which were accomplished, ADEC needs to articulate how those goals were met. For goals which were not met, such as the short-term goal to lend \$44 million, ADEC needs to explain what actions or progress were made towards accomplishing the goal and any problems or barriers that may have prevented success.
- **Timely and Expeditious Use of Funds** - The annual report should demonstrate that funds are being used in a timely and expeditious manner by stating what the total funds available were for the given fiscal year (cumulatively) and what amount or portion of those funds have been obligated (again, cumulatively). If the state is having difficulty fulfilling this requirement, an explanation is warranted.
- **Bypass Procedure** - The IUP explains the ACWF procedure for bypassing a project. The annual report needs to indicate when, why, and how this procedure was invoked. Many projects get funded from the full PPL that were not in the "fundable range" when the IUP went out for public comment. Bypass procedures

are in place to accommodate this situation; however, when they are used, the annual report should include an explanation.

#### COMPLIANCE WITH CROSS-CUTTERS

We assessed the Fund's compliance with Federal cross-cutting authorities as a part of our review of project loan files. Highlights from those reviews are noted below. To see those reviews in detail, please refer to the Project File Review Tables, Attachment II. Though none of the three files reviewed met equivalency requirements, ADEC typically does an excellent job documenting compliance with Federal cross-cutters. EPA would particularly like to praise ADEC for its use of the "SRF Cincinnati Checklist." We will be recommending this checklist to other states in Region 10.

EPA reviewed three project files; Kaktovik's Village and Sewer Project (loan #635041), Unalaska's Upper Haystack Sewer project (loan #879011), and Wasilla's Sewer Main project (loan #905041). With the exception of the Plans and Specifications (P&S) for the Unalaska file, all necessary documentation was present in the Unalaska and Wasilla files. Plans and Specifications for construction projects must **always** be available to EPA when conducting file reviews.

The file for the Kaktovik Village Water and Sewer Project included copies of most of the expected documents, although some of the necessary documentation was not immediately available. While the "SRF Cincinnati Checklist" was included in the file and noted project compliance with some requirements, EPA also needs the original documents from which the information on the checklist was obtained. A copy of the Environmental Assessment and Finding of No Significant Impact (FONSI) were provided which documented the environmental cross-cutters. The file did not include a complete copy of the facility plan and the document certifying approval of the plans and specifications.

The ACWF Project Engineer for the Kaktovik sewer project explained that this was one of seven sewer and water projects included in the overall construction project plan for the North Slope Borough. A Facility Plan (FP) for each community project had been completed as part of the master plan but there was not an individual facility plan for Kaktovik in the file. Only a copy of the plan summary was provided. The complete FP and P&S were not in the files.

Where a state chooses to house various documents such as Facility Plans, Environmental Review documents, Plans & Specifications, etc. is up to the State. These documents, while potentially not filed with a Project Officer's official "project file," must still be available to EPA during an on-sight review. Project files should be complete enough to provide all required elements without needing supplemental explanations. EPA requests that ACWF maintain complete files on all open loan projects, even those that might be part of a multi-project construction plan.

## OPERATING AGREEMENT

The Alaska Clean Water Fund continues to be managed in accordance with the original Operating Agreement between the Department of Environmental Conservation and EPA, Region 10. This Operating Agreement, from December 1988, is outdated. It does not reflect some of the current practices or cross-cutters and it does not account for the changes that have been made to the program as it has evolved over more than a decade.

The EPA has been working with the Department of Environmental Conservation to update the Operating Agreement (OA). This work should be completed during SFY 2006 and a new OA will be in place by the start of SFY 2007.

## REQUIRED FINANCIAL ELEMENTS

When reviewed against the financial elements of the annual review checklist, Alaska's management of its CWSRF program meets the majority of the required financial management requirements. ADEC's accounting procedures, its annual reporting, and its sub-recipient monitoring are noteworthy examples of good financial management of the program. Program staff and financial department staff provided willing assistance to the EPA financial analyst in reconciling past year's data.

The annual review checklist contains some financial elements that are based on regulatory requirements, and other elements that are not regulatory. The non-regulatory elements are included on the checklist to help assess program performance and implementation. There are four areas where Alaska's CWSRF program did not meet requirements for an affirmative financial checklist review. The first two represent required elements; the last two are not requirements but do inform aspects of program performance. The four financial areas noted are:

1. ineligible charges from the 4% administrative set-aside
2. large uncommitted balances (approximately \$45 million as of the end of SFY 2004) not being signed into new loans and the plan for timely and expeditious use of funds not being implemented
3. the low rate of return on fund investments for SFY 2004 (EPA recognizes that the ACWF does not control the rate of return for Fund investments)
4. and no apparent long-term plan or planning process for the Alaska Clean Water Fund.

Additional discussion of these and other financial elements is presented below.

## DWSRF AND CWSRF 4% ADMINISTRATIVE FUNDS MISUSE

In spring 2004, the Environmental Protection Agency was alerted by Alaska Department of Environmental Conservation employees familiar with the Alaska Clean Water Fund and the Alaska Drinking Water Fund programs about possible misuse of the 4% administrative set-asides. Employees had been directed by their supervisors to charge their time to the administrative allowance under the ACWF and ADWF, even for time spent working on the State's Municipal Matching Grant (MMG) program projects.

In the first phase of examining this issue EPA requested timecard information for any and all ADEC staff members who received support from the 4% Administration Set-Aside. This initial analysis implied that the ADWF and ACWF funds had carried more than their fair share of salary support for project engineer, management, and administrative assistance to communities that received grant funding from the MMG program.

EPA subsequently conducted staff interviews in Juneau and compared time recorded on timecards to employee recollections of the same time periods to determine employee estimates of the time spent on various SRF or non-SRF duties. This analysis also showed a similar result; the ADWF and ACWF had borne more than their share of salary support for administering the MMG grant program. A final evidentiary piece was found by examining the new method of employee time accounting implemented in SFY 2005.

ADEC conducted its own analysis over the next several months and countered with a proposed methodology of settling the problem in summer 2005. EPA and ADEC negotiations concluded in the fall and a bill for \$223,155 was sent to ADEC on October 12, 2005. For further discussion and details please refer to Attachment III.

## TIMELY AND EXPEDITIOUS USE OF FUNDS

Fund earnings available for use by the Alaska Clean Water Fund for new loans continue to grow. This is positive in terms of maintaining the ACWF into perpetuity, as well as increasing the ability to offer loan funds to a large number of applicants. The Clean Water Act and the CWSRF program regulations both required that states use the funds available to their clean water revolving funds in a timely and expeditious manner. This requirement is aimed at (a) getting projects under construction and completed quickly, (b) getting the funds made available by EPA's capitalization grant awards out building projects and earning interest for the CWSRFs rather than sitting idle in the U.S. Treasury, and (c) ensuring that revenues accruing to the funds (repayments and interest earnings) are committed to new projects within a reasonable period of time.

In February 1999, the EPA issued policy guidance SRF 99-05 to clarify EPA's expectations on the rate at which clean water state revolving funds would commit funds that are available for new projects. That policy states in relevant part:

*The legal requirement at 602(b)(4) that "all funds in the fund will be expended in an expeditious and timely manner" very clearly applies to the entire SRF, not just the federal grants...Finally, Section 602(b)(3) requires states to "enter into binding commitments to provide assistance...in an amount equal to 120 percent of the amount of each grant payment within one year after receipt of such grant payment." Generally, based upon an OGC opinion in the January 19, 1995 memo (95-03), that same time frame seems reasonable for committing repayments and other funds to projects. If all available funds are not committed to projects, then the IUP must contain a plan which details how and when the funds will be used. Unless a reasonable plan for using the funds is presented in the IUP, we recommend withholding the grant award until such a plan is prepared...It remains our policy that all funds in the fund, including repayments, should be used within a year of receipt.*

Over the past several years, ADEC's balance of principal and interest repayments and fund balance interest accruing at the State Treasury but not being committed to new loans has been growing at an alarming rate. As of the end of SFY 2002, ADEC had more than \$21 million dollars that had not been committed to new loans. In just two years, by the end of SFY 2004, that amount had more than doubled to over \$45 million dollars.

In December 2003 ADEC and EPA discussed the growing level of uncommitted balances. ADEC committed to preparing a plan to increase the pace of the program and obligating these funds. In February 2004 EPA received a document from ADEC titled, "Assessing Loan Demand, Alaska Clean Water Fund" that detailed ADEC's plan to lower interest rates, make significant programmatic changes, change the IUP cycle, improve outreach to existing clients, market to new clients, integrate the ACWF with other wastewater infrastructure financing mechanisms such as MMG and federal earmarks, and create new funding mechanisms such as a linked deposit system. This was a comprehensive, detailed plan for actions ADEC planned to take to increase the dollar volume of loans executed.

Later that year ADEC underwent a reorganization and only one aspect of the plan was implemented, lowering the interest rates. The reduction in the interest rate charged on new loans from an effective rate of 2.5% to 1.5% may make the ACWF a more attractive source of financing for water quality projects. However it is too soon to determine whether solely lowering the interest rates will attract enough new economic demand for loans from the fund to make full use of the ACWF's available capital each year.

In our view, one of the major challenges that the ACWF faces in sustaining new loan volumes that will use its available capital each year is the competition with Alaska's Municipal Water, Sewerage, and Solid Waste Matching Grants program. Most of the water quality projects that are eligible to apply for financial assistance from the ACWF are also eligible to receive assistance under the MMG program.

Other states with multiple sources of water quality financial assistance have found some effective ways of maximizing the water quality benefits of the assistance that they can provide to their communities. Alaska may wish to consider these ideas. For example:

- Combining the separate solicitation processes for the grants and loan programs into one solicitation process. In order to meet the deadlines established in the State's capital budget development process, this would require that the ACWF solicit applications and develop its IUP much earlier in the fiscal year.
- Modifying the grants program, with respect to water quality projects, so that grants are only made in cases where the project owner can demonstrate an economic hardship based on State established economic criteria.
- The state could update the IPPSS to use the water quality priorities identified in its Alaska Clean Water Action Plan to direct the allocation of funds among competing applications in both programs (grants and loans) and the final IUP could reflect the capital budget decisions that the legislature has made in the appropriations process.
- The ACWF could become part of the integrated ACWA funding cycle with a portion of its fund.

The ACWF faces many challenges in obligating the total funds available for new projects on an annual basis. EPA would like to encourage ADEC to implement its "Assessing Loan Demand, Alaska Clean Water Fund" marketing plan. Also, EPA would like to continue to offer its services to work with ADEC to identify some of the administrative and programmatic barriers that may hinder the program, expand and improve marketing efforts, and make other program changes that will allow ACWF to obligate its funds in a "timely and expeditious manner."

#### FUND INVESTMENTS

Management of the ACWF does not control the earnings rates from investments. Per a 1999 Memorandum of Understanding (MOU) between the Alaska Department of Administration and the Alaska Department of Revenue, ACWF cash is held in the "General Fund and Other Non-Segregated Investments" fund (GeFONSI) and invested by the Alaska State Treasury Division. Investment results for this category of funds were low for SFY 2004, with four out of the twelve months actually returning negative returns on

the State's investments. The ACWF shared in these negative investment returns resulting in the low overall rate of return (0.95%) for SFY 2004.

#### FINANCIAL STATEMENTS AND REPORTING

Alaska's Clean Water Fund financial statements are organized and presented in a format that meets the requirements of Generally Accepted Accounting Practices (GAAP) and applicable standards set forth by the OMB Circular A-133-Single Audit Compliance Supplement. Similarly the ACWF provides an annual report and submits the needed data for the Clean Water National Information System (CWNIMS). These reports and statements are well written and the information provided is valuable for public information and support of the EPA's national Clean Water State Revolving Fund (CWSRF) program. EPA appreciates the effort of ACWF's staff work on these reporting products.

The ACWF includes a Management Discussion and Analysis (MD&A) section in its financial statements as required by GASB 34. As stated in GASB 34:

*MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year based on the government-wide information. It should provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether the financial position has improved or deteriorated as a result of the year's activities. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.*

Thus the MD&A assists users in recognizing financial events that may not be easily identified when just reviewing the financial statements alone. For example, during state fiscal year 2004, the ACWF processed a one-day disbursement of \$15 million as part of a single project. A disbursement of this size was noteworthy in that it represented 72% of the total disbursements for fiscal year 2004 and had a significant effect on the performance of the ACWF for the year. It would help EPA and other users of the ACWF

financial statements if future MD&A narratives included discussion of events such as these.

During the course of the annual review several instances of numerical inconsistency between different reports were noted. For example, the amount of state matching dollars deposited into the fund was incorrectly stated in the Management Discussion & Analysis section of the financial statements. Another reporting inconsistency was noted regarding the loan administration fee account. Amounts reported in previous years, plus amount reported collected during the recent and current fiscal years, did not add up to the total balance in the fee account. This was corrected, but only after the annual report and financial statements had been produced and distributed.

Within the annual report, the disbursement history displayed in Exhibit 6 contained an error that resulted in an overstatement of the amount of funds that EPA has paid cumulatively to the ACWF. The error was subsequently corrected and revised documents were distributed.

As of result of these inconsistencies, all three of the financial reporting products (the financial statements, the Annual Report, and the Clean Water National Information Management System-CWNIMS), lose some of their credibility. EPA recommends that additional cross-checking and an account reconciliation process be implemented before the financial statements and the annual report are finalized.

#### INDEPENDENT AUDIT OF FINANCIAL STATEMENTS

Under EPA's audit guidance, each state is strongly encouraged to conduct a separate, annual audit of the CWSRF program. EPA appreciates that the ACWF has voluntarily contracted annually for an independent audit. The ACWF 2004 independent auditor's report provided an unqualified opinion<sup>2</sup> affirming the program's adherence to GAAP in its financial statements. The audit report also offered a positive report on the program's internal controls and management processes. The ACWF is meeting financial statement reporting requirements and has adequate internal controls in place to warrant the unqualified audit report.

It would be helpful to EPA if the scope of the audit were expanded to include additional tests and review of reported cash flow amounts and account balances within the Alaska Clean Water Fund. EPA would like to rely on the work provided by the independent audit as much as possible as a means of avoiding duplicative work and as an additional

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<sup>2</sup> An unqualified opinion is an auditor's judgment that he or she has no reservation as to the fairness of presentation of a entity's financial statements and their conformity with Generally Accepted Accounting Principles (GAAP), also termed *clean opinion*.

source of review for the ACWF program in verifying the accuracy of published financial information. Cumulative account balances should reflect amounts reported in prior year annual reports and financial statements plus the current fiscal year's increase or decrease. To increase the accuracy of financial data included in the annual report, EPA suggests that the annual audit be expanded to include tests of the following:

- The reported annual and cumulative amount of state match contributions to the ACWF, referencing amounts reported in the prior year annual report
- the annual and cumulative total of contributions from federal grants, referencing amounts reported in the prior year annual report
- the annual and cumulative loan agreements signed (binding commitments), referencing amounts reported in the prior year annual report.
- the annual and cumulative loan disbursements reported in the annual report, referencing amounts reported in the prior year annual report
- the annual and cumulative administrative charges disbursements reported for administrative costs, referencing amounts reported in the prior year annual report
- a fiscal year to fiscal year reconciliation of the administrative fee account balance referencing amounts reported in the prior year annual report.

Additionally, a specific review of staff salaries and indirect costs charged to the ACWF administrative account would provide additional assurance that proper charging procedures are being followed in this area.

To implement these recommendations, EPA suggests that the ACWF negotiate an increased level of effort with their current CPA audit provider. EPA recognizes the professionalism of the current audit provider and is confident that any additional tests or reviews conducted by the current audit provider would strengthen the reporting of financial data by the ACWF. Alternatively, the ACWF could contract with the Alaska State Auditor's office to have a comprehensive annual audit performed by this office to include these tests for account balances and administrative charging controls.

#### FINANCIAL INDICATORS

Financial indicators for the Alaska CWSRF show a decline in CWSRF program performance during SFY 2003 and SFY 2004. The cumulative percentage use of funds available decreased from 94% to 89% during SFY03 and remained at 89% by the end of SFY2004. The return on federal investment increased only slightly from 114% at the end of SFY 2002 to 115% by end of SFY 2003 but decreased to 108% by the end of SFY 2004.

This indicator is an important measurement of the success of the Fund in leveraging the funds provided by federal capitalization grants. The Alaska CWSRF performance contributes to the national results for return on federal investment which is one of the key measurements by which the EPA's CWSRF Program is evaluated by the President's Office of Management and Budget (OMB). Please refer to the chart on the following page for a comparison of recent fiscal year performance according to financial indicators by which state CWSRF programs are evaluated.

### Alaska's Clean Water Fund

#### Financial Indicators for SFY 2003 and SFY 2004

| Description  | Alaska<br>SFY 2003 | Alaska<br>SFY 2004 | Small States<br>Average <sup>3</sup><br>SFY2004 | Regional<br>Average for<br>FY2004 | National<br>Average<br>for FY2004 |
|--|--------------------|--------------------|---|-----------------------------------|-----------------------------------|
| <b># 1- Return on Federal Investment</b> - Shows the amount invested in water quality beneficial projects for each federal dollar invested                                       | 115%               | 108%               | 134%  | 146%                              | 142%                              |
| <b># 2-Percentage of Closed (executed) Loans to Funds Available For Loans</b> - Shows the amount of signed loan agreements compared to the amount of funds available for loans   | 89%                | 89%                | 91%   | 99%                               | 91%                               |
| <b># 3-Percentage of Funds Disbursed to Closed Loans</b> - Shows the amount of funds actually disbursed compared to the amount of signed loan agreements                         | 67%                | 73%                | 79%   | 73%                               | 79%                               |
| <b># 4-Benefits of Leveraging</b> - (generating additional SRF funds by issuing bonds)   | N/A                | N/A                | N/A   | N/A                               | N/A                               |
| <b># 5-Perpetuity of Fund</b> - Demonstrates whether the program is maintaining its contributed capital. A positive result indicates the Program is maintaining its capital base | \$33,398,411       | \$37,398,411       | N/A   | N/A                               | N/A                               |
| <b># 6-Estimated Subsidy</b> - An estimate of the CWSRF interest rate subsidy, stated as a percentage of the market rate.  | 48%                | 58%                | 55%   | 49.3%                             | 52.7%                             |

<sup>3</sup> Small states average is calculated using SFY2004 financial indicators for 9 states which were awarded capitalization grants of less than \$8M in 2004 and do not leverage their loan program.

## LONG-RANGE PLANNING

Management and staff for the ACWF currently engage in short to mid-term planning. That is, "how will program financial decisions and implementation policies affect the program's performance in the next few years?" A financial modeling program developed in-house by staff at the ACWF is used to forecast some of the potential impacts of program policy decisions.

The ACWF decided to lower interest rates on new loans and all existing loan balances. While EPA recognizes the potential benefit to generate borrower interest in the fund by lowering interest rates, EPA could not find any benefit to the program in halving the interest rate on all **existing** loans. A projection of the long-term effect on the perpetuity of the fund was presented to EPA before the decision was made to lower the interest rate and again discussed during the site visit. EPA contended that the perpetuity of the fund would be negatively impacted by this action. The State, using its in-house planning model, did not agree with this assessment and proceeded to lower the interest rates on all loans. Assessing the perpetuity of the fund and the impact of lowering interest rates on the entire loan portfolio will be a major focus of EPA's SFY 2005 annual review.

EPA would like to offer assistance to the ACWF in working on their long-term planning strategy. In light of the uncertainty surrounding future federal appropriation levels, as well as the challenges that the ACWF faces in program performance, EPA recommends that long-term planning be elevated to a more visible issue on the management agenda.

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## CONCLUSION

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### REQUIRED ACTIONS

Based on our review of the Alaska Clean Water Fund's performance in SFY 2003 and SFY 2004, we have identified a few matters for which corrective action by the Department of Environmental Conservation must be taken:

1. The state of Alaska must repay the Environmental Protection Agency \$223,155 that was inappropriately drawn from various capitalization grants. See the discussion at page 11.
2. The state of Alaska must transfer \$44,642 from the State Treasury to the Alaska Clean Water Fund account to repay inappropriately drawn state match funds. See the discussion at page 11.
3. The Alaska Clean Water Fund must obligate at least \$30 million dollars before the FFY 2005 capitalization grant will be awarded. To be clear, "obligating" \$30 million consists of any combination of increases in loans, new loans signed, or funds transferred to Alaska's Drinking Water Fund. See the discussion at page 11.
4. The Department of Environmental Conservation must work with the EPA to develop a new Operating Agreement governing the administration of the Fund which reflects changes to state program regulations and procedures, cross-cutting federal authorities, and other structural and programmatic changes that have occurred since 1988. See the discussion at page 10.

### RECOMMENDED ACTIONS

For reasons stated earlier in this document, EPA would like to request ADEC consider making the following changes:

- Modifications to the annual report (see discussion on page 8)
- Integration with other infrastructure financing programs and/or ACWA (see discussions on pages 6 and 13)
- Changes to the work assignment for an Independent Audit of Financial Statements (see discussion on page 15)
- Work with EPA on long-term planning for the ACWF (see discussion on page 18)

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## ATTACHMENT I - ANNOTATED REVIEW CHECKLISTS

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### USE OF CHECKLISTS

The checklists that follow are designed to provide a convenient method for ensuring that the annual review has addressed all of the major review elements. The checklists are organized by topic for easy reference and do not represent a suggested order for conducting the review. For example, project file reviews may touch on many different annual review topics and the checklists provide a mechanism to quickly locate the topic and record the findings while moving from one topic to another. Once the review is completed, all of the topics must either be specifically addressed or noted as not being covered during this review. If an area was not reviewed, note the reason for not reviewing it and any future review activities.

For the items that are reviewed, the requested information on the checklist must be completed noting your findings. Make sure to check all data sources that were used in determining the findings. Pertinent attachments should be added to the checklists and referred to as is appropriate. The checklists must be used as your work papers for the overall evaluation and a reference document in the future to prepare for the next annual review.

It should be noted that the checklist topics are references and are not intended to be comprehensive statements of each program item. Other supporting documents, such as the Annual Review Guidance, program documents provided in the SRF Document Library, the SRF Audit Compliance Supplement, the EPA SRF Financial Planning Model, and many other SRF related information and tools should be utilized to delve in depth into specific review topics.

## ANNUAL REVIEW INFORMATION SHEET

State Under Review: Alaska  
DW or CW Program? CW

For SRF Fiscal Year Beginning: 07/01/03 Ending: 06/30/04

Annual / Biennial Report Received: 10/31/2004

State  
Contact: Mike Lewis

Annual Audit Received: 10/31/2004

Audit Year: SFY04

Phone No. (907) 269-7616

### Core Review Team:

| <u>Role</u>                       | <u>Name</u>     |
|-----------------------------------|-----------------|
| Team Leader,<br>CWSRF Coordinator | Michelle Tucker |
| Financial Analyst<br>Northbridge  | Chris Castner   |
| Contractor                        | Deems Buell     |
|                                   |                 |
|                                   |                 |
|                                   |                 |
|                                   |                 |

### State Staff Interviewed

|                 |                             |
|-----------------|-----------------------------|
| Dan Easton      | Water Division Director     |
| Bill Griffith   | Facility Operations Manager |
| Mike Lewis      | CWSRF Program Manager       |
| Butch White     | Financial Analyst           |
| Dan Garner      | Project Engineer            |
| Terriann Lowell | Administrative Services     |
| Robin Merritt   | Grants Administrator        |

Project Files Reviewed: Wasilla Sewer Main Improvements #905041

North Slope Borough Kaktovik Sewer Project #635041

Unalaska Upper Haystack Sewer #879011

|                 | First Team Meeting                      | Second Team Meeting | On-Site Visit         | Draft PER  | Final PER   |
|-----------------|---|---------------------|-----------------------|------------|-------------|
| Estimated Date: | Many additional meetings re:admin issue |                     | 1/24/2005 - 1/28/2005 | 4/30/2005  | 6/30/2005   |
| Actual Date:    | 10/18/2004                              | 12/7/2004           | 1/24/2005 - 1/28/2005 | 11/22/2005 | ___/___/___ |

## REQUIRED PROGRAM ELEMENTS

| Review Item and Questions to Answer<br>reference to guidance manual  | Yes | No | N/A | Comments  | Data Sources<br>(check all that apply)  |
|--|-----|----|-----|---|---|
| <b>1.1 Annual / Biennial Report</b>  |     |    |     |   |   |
| 1 Does the State's Annual / Biennial Report meet all requirements?   |     | X  |     | Annual Report well written and informational. See below for a few topics that should be added to meet all requirements.   | X Annual Report: Date Oct 2004  |
| a. Reports on progress towards goals and objectives  |     | X  |     | Short term goal to loan \$44M; only loaned \$15M not explained in report. EPA will work with State to better report on progress towards goals and when goals aren't met, to explain why.  | X Annual Report, pg. 3  |
| b. Reports on use of funds and binding commitments   | X   |    |     |   | X Annual Report, pg. 2 and Exhibit 1  |
| c. Reports on the timely and expeditious use of funds  |     | X  |     | State doesn't currently report on "timely and expeditious use of funds." T&E continuing problem, identified to state in the past. Previous Program Manager for State had prepared plan for increasing loan volume in Feb 04. Plan discarded with Program Manager "reorganized" out of program. Timely and expeditious use of funds discussed with State every year. Program behind in signing loans and has problems. EPA will work with State to improve T&E use of funds and to update Annual Report to reflect this topic. | X Annual Reprot, pg. 7  |
| d. Identifies projects and types of assistance provided.   | X   |    |     |   | X Annual Report pg. 2 and Exhibit 1   |
| e. Includes financial statements and cross-references independent audit report   | X   |    |     | Independent audit last attachment of Annual Report  | X Annual Report, Exhibit 7  |
| f. Provides overall assessment of the SRF's financial position and long-term financial health  |     | X  |     | The Annual Report provides summary data on the ACWF's activities and financial position but provides no assessment of whether or not the financial position is better or worse than previous years, nor does the Annual Report provide an assessment of the long-term financial health of the program.  | X Annual Report Executive Summary, page1, and Details of Accomplishments pages 3 - 7. |
| g. Demonstrates compliance with all SRF assurances   | X   |    |     |   | X Annual Report pgs. 5-8  |
| h. Demonstrates compliance with SRF program grant conditions   | X   |    |     |   | X Annual Report pgs. 5-8  |
| i. Demonstrates that the highest priority projects listed in the IUP were funded (DW only)   |     |    | X   |   |   |
| j. Documents why priority projects were bypassed in accordance with state bypass procedures and whether state complied with bypass procedures. |     | X  |     | IUP explains procedure for bypassing project. Annual Report does not specifically address this issue.   |   |
| k. Documents use of set-aside funds (see set-aside sheet for details)  |     |    | X   |   |   |

|   |  |             |  |   |
|---|--|-------------|--|---|
|   |  |             | Grant stipulates the Annual Report will be submitted 90 days after the end the of the State Fiscal Year or the PO should be contacted, in writing, to ask for an extension if it will be late. |   |
| 2   | Was the Annual / Biennial Report submitted on time?  | <u>    </u> | <u>    </u> X <u>    </u>  | <u>    </u> X <u>    </u> Annual Report: Date Oct 2004  |
| 3   | If the State assesses the environmental and public health benefits of projects, are the benefits discussed in the Annual/Biennial Report? If the answer is yes, the comment section should contain an explanation. | <u>    </u> | <u>    </u> X <u>    </u>  | <u>    </u> X <u>    </u> : Annual Report   |
| <p>1.2 Funding Eligibility</p>              |  |             |  |   |
| 1   | Are projects receiving assistance eligible for funding?  | <u>    </u> | <u>    </u> X <u>    </u>  | <u>    </u> X <u>    </u> Project Files<br><u>    </u> X <u>    </u> Priority List<br><u>    </u> X <u>    </u> Project ranking and selection process<br><u>    </u> X <u>    </u> IUP descriptions and reference to 319 plan   |
| 2   | Is documentation being received from assistance recipients to support the amount and eligibility of disbursement requests?   | <u>    </u> | <u>    </u> X <u>    </u>  | <u>    </u> X <u>    </u> Project Files - Pay Request Documentatic<br><u>    </u> X <u>    </u> Approval documentation<br><u>    </u> X <u>    </u> Inspection reports  |
| 3   | Does the State have controls over SRF disbursements to ensure that funds are used for eligible purposes?   | <u>    </u> | <u>    </u> X <u>    </u>  |   |
| 4   | Is the state meeting the 15% small system requirement? (DW only)   | <u>    </u> | <u>    </u> <u>    </u> X <u>    </u>  |   |
| 5   | Does the State have procedures to ensure that systems in significant   | <u>    </u> | <u>    </u> <u>    </u> X <u>    </u>  |   |
| <p>1.3 Compliance with DBE Requirements</p> |  |             |  |   |
| 1   | Is the State complying with all DBE requirements (setting goals, six   | <u>    </u> | <u>    </u> X <u>    </u>  | <u>    </u> X <u>    </u> Grant / Operating Agreement<br><u>    </u> X <u>    </u> Annual / Biennial Report<br><u>    </u> X <u>    </u> Project Files<br><u>    </u> X <u>    </u> DBE Reporting Forms<br><u>    </u> X <u>    </u> Interview with CWSRF MBE/WBE Coordinator |
| 2   | Are assistance recipients complying with all DBE requirements?   | <u>    </u> | <u>    </u> X <u>    </u>  |   |

#### 1.4 Compliance with Federal Cross-Cutting Authorities (Cross-Cutters)

|    |   |   |   |   |  |   |                                 |
|----|---|---|---|---|--|---|---------------------------------|
| 1  | Is the State complying with applicable federal cross-cutting authorities?   | X |   |   |  | X | Project Files                   |
|    |   |   |   |   |  | X | Grant / Operating Agreement     |
|    |   |   |   |   |  | X | Annual / Biennial Report        |
|    |   |   |   |   |  | X | Interviews with CWSRF engineers |
| 2  | Is the State ensuring that assistance recipients are complying with all applicable federal cross-cutting authorities? | X |   |   |  |   |                                 |
| 3  | Were there any issues which required consultation with other State or Federal agencies?                               |   | X |   |  |   |                                 |
| a. | What did the consultation conclude with regard to compliance with the cross-cutter?                                   |   |   | X |  |   |                                 |

#### 1.5 Compliance with Environmental Review Requirements

|    |  |   |   |   |  |   |  |
|----|--|---|---|---|--|---|--|
| 1  | Are environmental reviews being conducted in accordance with the State's approved environmental review procedures (SERP)?      | X |   |   |  | X | Project Files  |
|    |  |   |   |   |  | X | State Environmental Review Procedures  |
|    |  |   |   |   |  | X | Annual / Biennial Report   |
|    |  |   |   |   |  | X | Interviews with CWSRF engineers  |
| 2  | Does the State document the information, processes, and premises leading to decisions during the environmental review process? | X |   |   |  | X | Project Files  |
|    | exclusion (CE) or the State equivalent?  | X |   |   |  | X | Staff interviews   |
| b. | Environmental Assessment (EA)/Findings of No Significant Impacts (FONSI) or the state equivalent.                              | X |   |   |  |   |  |
| c. | Decisions to reaffirm or modify previous SERP decisions.   |   |   | X |  |   | Did not review project with this type of decision.   |
| d. | Environmental Impact Statement (EIS)/Records of Decisions (RODS) or the State equivalent.                                      |   |   | X |  |   | Did not review project with this type of decision.   |
| 3  | Are public notices and meetings, as required by the SERP, provided during the environmental review process?                    | X |   |   |  |   |  |
| 4  | Are documented public concerns being addressed/resolved by the State in the environmental review process?                      |   |   | X |  |   | No public concerns were found during the file review.  |
| 5  | Do environmental reviews document the anticipated environmental and public health benefits of the project?                     |   | X |   |  |   | Environmental and public health benefits are addressed, not "documented," in the environmental reviews. Pursuant to EPA Order 5700.7, "Environmental Results Under Assistance Agreements," ACWF has agreed to fill out an environmental benefits "one-pager" for every project with which they sign a loan. This volunteer effort will provide EPA with invaluable information as to the benefits of the CWSRF. EPA would like to thank ADEC for agreeing to this with their SFY2004 Capitalization Grant. |

### 1.6 Operating Agreement

- 1 Is the State's Operating Agreement up to date reflecting current operating practices?

|                                       |   |   |  |   |                               |
|---------------------------------------|---|---|--|---|-------------------------------|
|                                       | X |   | The Operating Agreement is the original from 1988, it has never been updated. A new, updated Operating Agreement will be in effect by SFY07. | X | Last update date: 1988        |
| a. Program administration             | X |   | The State has undergone several reorganizations since the Operating Agreement was approved in 1988.  | X | Operating Agreement, Dec 1988 |
| b. MOUs                               |   | X |  |   |                               |
| c. Description of responsible parties | X |   | The State has undergone several reorganizations since the Operating Agreement was approved in 1988.  |   | Operating Agreement, Dec 1988 |
| d. Standard operating procedures      | X |   |  |   |                               |

### 1.7 Staff Capacity

- 1 Does the State have staff, in terms of numbers and capability, to effectively operate the SRF?

|   |   |   |  |   |                          |
|---|---|---|--|---|--------------------------|
|   | X |   | There was a massive reorganization and the program manager position was effectively eliminated. The senior engineer, Mike Lewis, was given all the responsibilities of running the CWSRF, DWSRF, and State Municipal Matching Grant Program but still maintains many of his engineers responsibilities. No other engineer was hired to back-fill behind Mike. This program is seriously behind in Timely and Expeditious use of its P&I repayments. Strong leadership and marketing are necessary to put the program back on track. Updating the Operating Agreement, providing all the legal documents necessary to transfer funds between the CWSRF and DWSRF, significantly increasing the rate at which funds are obligated, etc. all require a full time program manager. |   | Program Budget           |
|   |   |   |  | X | Organization Chart       |
|   |   |   |  | X | Staff interviews         |
|   |   |   |  | X | EPA professional opinion |
| a. Accounting & Finance   | X |   |  |   |                          |
| b. Engineering and field inspection   | X |   | Either a new engineer or program manager needs to be hired.  |   |                          |
| c. Environmental review / planning  | X |   |  |   |                          |
| d. Management   | X |   | Either a new engineer or program manager needs to be hired.  |   |                          |
| e. Management of set-asides (DW only)   |   | X |  |   |                          |
| 2 Does the program have an organizational structure to effectively operate the SRF? | X |   | This remains to be seen given that there has been a massive reorganization. We will know more when conducting the SFY05 review   |   |                          |

## REQUIRED FINANCIAL ELEMENTS

| Review Item and Questions to Answer |  | Yes                       | No          | N/A         | Comments   | Data Sources<br>(check all that apply) |                                      |
|-------------------------------------|--|---------------------------|-------------|-------------|--|--|--------------------------------------|
| <b>2.1 State Match</b>              |  |                           |             |             |  |  |                                      |
| 1                                   | Has the State provided match equal to 20 percent of the grant amount?  | <u>X</u>                  | <u>    </u> | <u>    </u> | \$1,620,000 appropriated (funded by revenue anticipation bonds) for state match in SFY04. <b>Audit, pg. 18</b>   | <u>X</u>                               | Audited Financial Statements         |
|                                     |  |                           |             |             | Copy of screen from State accounting records showing deposit provided.   | <u>X</u>                               | Annual / Biennial Report             |
|                                     |  |                           |             |             |  | <u>X</u>                               | State Accounting Records Review      |
| 2                                   | Was each match amount deposited at or before the federal cash draw?  | <u>X</u>                  | <u>    </u> | <u>    </u> | State accounting system query confirms deposit of state match. Annual report from SFY2003 reports \$1,611,880 deposited.   | <u>X</u>                               | Audited Financial Statements         |
|                                     |  |                           |             |             |  | <u>X</u>                               | Annual / Biennial Report             |
|                                     |  |                           |             |             |  | <u>X</u>                               | State Accounting Records Review      |
|                                     |  |                           |             |             |  | <u>X</u>                               | <b>State Accounting System Query</b> |
| 3                                   | What is the source of the match (e.g., appropriation, State GO bonding, revenue bonds, etc.)?  | <u>CWSRF issued bonds</u> | <u>    </u> | <u>    </u> | Until 1999 match funds were appropriated; since 2000 the CWSRF issues match bonds annually.  | <u>X</u>                               | Grant Application                    |
|                                     |  |                           |             |             |  | <u>X</u>                               | Audited Financial Statements         |
|                                     |  |                           |             |             |  | <u>X</u>                               | Annual / Biennial Report             |
| 4                                   | Are match funds held outside the SRF until the time of cash draws?   | <u>    </u>               | <u>X</u>    | <u>    </u> | Bond structure dictates that bond proceeds are deposited into the CWSRF fund. In 2004, the audit report shows cash flow of \$1,620,000 into the CWSRF.   |  | Audit 2004, pg 11                    |
| 5                                   | If bonds are issued for state match, and the SRF is used to retire these bonds, do the bond documents clearly state what funds are being used for debt service and security? | <u>X</u>                  | <u>    </u> | <u>    </u> | Bond documents refer to the "Bond Account - Clean Water" and define this account as a special account designated for retiring bond debt. The audit report states that bonds issued for state match are repaid from interest income from the SRF. |  | Audit 2004, pg 8                     |
| a.                                  | Has the state match structure been approved by Headquarters?   | <u>X</u>                  | <u>    </u> | <u>    </u> |  |  | EPA HQ memo, dated June 28, 2000     |
| 6                                   | Is the state match bond activity consistent with the approved state match structure?   | <u>X</u>                  | <u>    </u> | <u>    </u> |  |  |                                      |

## 2.2 Binding Commitment Requirements

|   |  |   |   |   |  |
|---|--|---|---|---|--|
|   |  |   | During SFY04 , binding commitments were 127% of the quarterly grant payments scheduled during the previous state fiscal year. The binding commitment requirement for these payments from the 2001, 2002, and 2003 federal grants were met by loans made from November 2000 thru April, 2004. (data from Exhibit 2 in AK SFY2004 Annual Report)  |   |  |
| 1 | Are binding commitment requirements being met?   | X |   | X | Binding commitment worksheet   |
|   |  |   |   | X | Annual / Biennial Report   |
|   |  |   |   |   | Project files  |
|   |  |   |   |   |  |
|   | a. Are cumulative binding commitments greater than or equal to cumulative grant payments and accompanying State match within one year of receipt of payment? | X | Grant payments scheduled and state match cumulative through June 2003 = \$112,927,844; this the cumulative amount of funds establishing the binding commitment requirements for SFY04. Cumulative binding commitments thru SFY04 = \$186,819,491 (Audited Financial Statements, page 6). The SFY04 Annual Report and CWNIMS report cumulative binding commitments of \$197.6 million, but these data sources do not account for loan decreases or deobligations). | X | Schedule of grant payments from Exhibit 2 in Annual Report. BC data from audited financial statements, MD& A discussion page 6. Also from Annual Report and CWNIMS |
|   |  |   | Binding Commitments are documented by signed loan agreements. All project files contain a signed loan agreement.  | X | ADEC project files   |
| 2 | Are binding commitments documented in the project files?   | X |   |   |  |
|   | a. Do the commitment dates match reported commitments in the Annual/Biennial report?   | X |   | X | IUP/Annual Report comparison   |
| 3 | Is there a significant lag between binding commitments, loan execution, or the actual start of the projects?   |   | Due to special weather issues in Alaska there is a greater lag in time between signed loan agreement and actual start of projects but we would not call it "significant" given the special circumstances of construction in AK.   | X | Project Files  |
|   |  |   |   | X | Record of binding commitment dates   |
|   |  |   | Lag time between loan execution and first disbursement was 2-7 months for the loans checked (40931, 905041, 409031, and 78305)  |   | Loan documents   |
|   |  |   |   |   |  |
|   | a. What is the typical and longest lag from binding commitment to project start?   |   | Typical lag time for loans checked was 2-7 months from loan execution to disbursement; longest lag time noted was 2 years 9 months; from April 2001 to January 2004 for N Slope Borough loan disbursement #635041.  |   |  |
|   | b. How many projects have never started?   |   | Didn't discuss at Annual Review   |   |  |
|   | c. How many projects have been replaced because they never started?  |   | Didn't discuss at Annual Review   |   |  |
|   | d. If this problem exists, is it recurring? If so, what steps are the State taking to correct the situation?   |   | Didn't discuss at Annual Review   |   |  |

### 2.3 Cash Draws

|   |  |   |   |   |  |   |  |
|---|--|---|---|---|--|---|--|
| 1 | Has the State correctly adhered to the "Rules of Cash Draw" ?  | X |   |   | All of AK's cash draws are done at an 83/17 ratio, even the administrative draws.  | X | Project disbursement requests  |
|   |  |   |   |   |  |   | Accounting transactions  |
|   |  |   |   |   |  |   | Approved leveraging structure  |
|   |  |   |   |   |  | X | Federal draw records (IFMS)  |
|   |  |   |   |   |  |   | Audits   |
| 2 | Does a review of specific cash draw transactions confirm use of correct proportionality percentages?                     |   |   |   | Chris Castner, EPA Financial Analyst, conducted review of seven (7) disbursements/cash draw transactions from five (5) different projects. Disbursements ranged from \$10,930 to \$12,499,995. Sum of disbursements reviewed = \$13.6 million Federal cash draws.  |   |  |
| 3 | For leveraged states, what proportionality ratio is the state using to draw federal funds?                               | X |   |   |  |   |  |
| 4 | Have any erroneous payments/cash draws/disbursements been discovered and, if so , what corrective steps are being taken? |   |   | X | Administrative draws of \$909K were incorrectly taken from the CWSRF and DWSRF to administer the State's Municipal Matching Grant program over a period of eight years. On October 12, 2005, EPA reclassified some of the administrative expenses to eligible indirect charges, billed the State \$223,155, and required the remaining \$44,642 of State match be redeposited into the ACWF account. Complete details in file. |   |  |
| 5 | Does a review of specific Project cash draw transactions confirm the use of federal funds for eligible purposes?         | X |   |   | Review conducted of seven disbursements representing \$13.6 million in Federal cash draws.   | X | Time card records, state administrative staff interviews, spreadsheet model. |
| 6 | Does a review of specific Administrative cash draw transactions confirm the use of federal funds for eligible purposes?  | X |   |   | Review of staff salaries billed against the SRF administrative accounts (both CW and DW) were found to be incorrect in the allocation of charges for staff salaries.   | X | Project files  |
|   |  |   | X |   |  |   | Time card records, State administrative staff interviews, spreadsheet model. |

## 2.4 Timely and Expeditious Use of Funds

| Timely and Expedient Use of Funds |   |   |   |   |
|-----------------------------------|---|---|---|---|
| 1                                 | Is the State using SRF funds in a timely and expeditious manner?  | <div><div>X</div><div></div><div></div></div> | <div>Approximately \$45 million in unobligated funds sitting in the State Treasury as of June 30, 2004.</div> <div>In SFY03 the State signed binding commitments for only 33% of the funds subject to timely &amp; expeditious requirements; in SFY04 they signed 42%. Timely and expeditious guidance states that 100% of funds should be committed within one year of the funds becoming available.</div> <div>Approximately \$45 million in uncommitted funds (total funds minus those already obligated in loan agreements) sitting in the State Treasury as of June 30, 2004.</div> <div>Approximately \$2.4 million combined federal and state match dollars undrawn as of 6/30/04 (\$2M from CS020001-03 and \$380K estimated of state match)</div> <div>Uncommitted balance grew at 27% from SFY03 to SFY04. Total assets grew at 12.5% during the same period.</div> | <div><div>X</div><div>X</div><div></div></div> <div>IUP</div> <div>Binding commitments</div> <div>Annual / Biennial Report</div> <div><b>EPA Internal T&amp;E spreadsheet</b></div> <div>PO spreadsheet - numbers confirmed with State</div> <div>Federal Money - IFMS</div> <div>State match - calculated</div> <div>Annual Reports</div> <div>Audited Financial Statements</div> <div>PO Spreadsheet - numbers confirmed with State</div> |
| a.                                | Does the fund have large uncommitted balances?  | <div><div>X</div><div></div><div></div></div> |   |   |
| b.                                | Does the fund have large balances of undrawn federal and state funds?   | <div><div></div><div>X</div><div></div></div> |   |   |
| c.                                | Are the uncommitted balances growing at a faster annual percentage rate than the growth of the total assets of the SRF?                     | <div><div>X</div><div></div><div></div></div> |   |   |
| 2                                 | Does the State need to improve its use of funds to ensure timely and expeditious use? Has the state developed a plan to address the issue?  | <div><div></div><div>X</div><div></div></div> | <div>ADEC developed a plan Feb 2004 but failed to follow through implementing the plan. Given the large amount of uncommitted balances invested with the State Treasury (approximately \$45M as of June 30, 2004) EPA will not be processing a FY05 grant until \$30M has been obligated. The State has plans to lower the interest rate to a 1.5% effective rate to increase demand and to transfer \$15M to the DWSRF.</div>  | <div>PO spreadsheet - numbers confirmed with State</div> <div>February 2004 State documents titled "Assessing Loan Demand"</div>  |
| 3                                 | If the state was required to develop a plan demonstrating timely and expeditious use of funds, is progress being made on meeting this plan? | <div><div></div><div></div><div>X</div></div> | <div>Program Manager developed plan in February 2004 but he no longer had a position after reorganization in late spring. No other staff implemented the plan.</div>  |   |

## 2.5 Compliance with Audit Requirements

|   |  |   |  |   |                   |
|---|--|---|--|---|-------------------|
| 1 | Are annual audits being conducted by an independent auditor?   | X |  |   |                   |
|   | a. Who conducted the most recent audit?  |   | Mikunda, Cottrell & Co. Certified Public Accountants & Consultants - Anchorage, AK   |   |                   |
|   | b. Did the program receive an unqualified opinion?   | X |  |   |                   |
|   | c. Were there any significant findings? (Briefly discuss the findings.)                                    | X |  |   |                   |
|   | d. Is the program in compliance with GAAP?   | X |  |   |                   |
| 2 | Does the annual audit confirm compliance with State laws and procedures?                                   |   | The independent auditor's report does not <b>confirm</b> compliance with State laws and procedures, rather they merely state that no instances of noncompliance were disclosed by their tests of the ACWF's financial statements; including some tests of compliance with certain statutory/regulatory provisions. |   |                   |
|   |  | X |  | X | Audit 2004; pg 24 |
|   | a. Did the audit include any negative comments on the state's internal control structure?                  | X |  |   |                   |
|   | b. Did the audit identify any erroneous payments/cash draws/disbursements?                                 | X |  |   |                   |
|   | c. Has the State taken action to recover the improperly paid funds?  | X |  |   |                   |
| 3 | Has the program implemented prior audit recommendations and/or recommendations in the "management" letter? | X | There were no prior year audit recommendations.  |   |                   |

- |   |  |  |  |   |
|---|--|--|--|---|
| X |  |  |  | Audit   |
|   |  |  | In SFY 2004, the ACWF realized a gain of only 0.95% on investments. However, for the past three (3) years, the average rate of return has been 3.2% and the five (5) year average is 4.2%. Per a 1999 MOU between the AK Dept of Administration and the AK Department of Revenue, ACWF cash is held in the "General Fund and Other Non-Segregated Investments" (GeFONSI) fund and invested by the Alaska State Treasury Division. Investment results for this category of funds was low for SFY2004, with 4 out of the 12 months actually returning negative returns on the state's investments. The ACWF shared in these negative investment returns resulting in the low overall rate of return for SFY04. | Rate of return calculated by EPA Region X. Program and state investment policy information provided by staff interviews (program and finance department department staff) and website(s):<br><a href="http://www.revenue.state.ak.us/treasury/policies/App_V1.2/Rv1_2.pdf">http://www.revenue.state.ak.us/treasury/policies/App_V1.2/Rv1_2.pdf</a> , and<br><a href="http://www.revenue.state.ak.us/treasury/Publications.htm">http://www.revenue.state.ak.us/treasury/Publications.htm</a> |
| X |  |  | Established via staff interviews and copies of accounting documents provided during the on-site review.  | Accounting procedures manual<br>Internal controls documentation   |
|   |  |  | No state purchased equipment has been noted.   | <b>X Staff Interviews</b>   |
| X |  |  | Butch White, ACWF Financial Manager, reviews single audits of loan recipients. Notification of Single Audit requirements is sent in a letter each July to loan recipients.   | X Staff interview Project files   |
| X |  |  | One loan recipient, Klawock, is not providing a single audit. ADEC withheld MMG funds until the audit was received.  | X Staff Interview   |
| X |  |  | Butch White, ACWF Financial Manager, reviews loan recipient's single audit submissions and conducts on-site reviews/audits periodically.   | X Staff Interview   |

## 2.6 Assistance Terms

- 1 Are the terms of assistance consistent with program requirements?

|   |  |  |   |                        |
|---|--|--|---|------------------------|
| X |  |  |   | IUP                    |
|   |  |  | X | Loan Agreements        |
|   |  |  |   | Repayment transactions |

- a. Are interest rates charged between 0% and market rates? (except as allowed for principal forgiveness)

|   |  |  |   |                      |
|---|--|--|---|----------------------|
| X |  |  | ADEC charges a 2% interest rate and 0.5% annual administrative fee on all ACWF loans. | Annual Report, pg. 3 |
|---|--|--|---|----------------------|

- b. Do principal repayments start within one year of project completion and end within 20 years, for all non-extended term projects with non-extended loan repayment terms?

|   |  |  |   |               |
|---|--|--|---|---------------|
| X |  |  | Loan documents stipulate repayments to begin within one year of project completion. | Project files |
|---|--|--|---|---------------|

- c. Does the program use extended terms or principal forgiveness to the extent it is allowable? (If so report the percentage of project funding in these categories.)

|  |   |  |  |                     |
|--|---|--|--|---------------------|
|  | X |  | The Alaska CWSRF does not allow extended terms or principal forgiveness. | Operating Agreement |
|--|---|--|--|---------------------|

- 2 Does the State periodically evaluate the terms of assistance offered relative to the supply and demand for funds and the long-term financial health of the fund?

|   |  |  |  |  |
|---|--|--|--|--|
| X |  |  | ADEC lowered interest rates in 2001 and 2005 to increase demand in the fund (Timely & Expedious problems). Prior to the most recent lowering of interest rates, ADEC prepared financial models predicting the long term financial impact on the fund of lowering the interest rates. While EPA thought it was a good idea to lower the interest rate for new loans, we thought it was a bad idea to retroactively reduce the interest rates of all existing loans. During the 2005 annual review EPA will be evaluating the impact of the across the board interest reduction on the perpetuity of the fund. |  |
|---|--|--|--|--|

## 2.7 Use of Fees

- 1 Does the program assess fees on their borrowers?

|   |  |  |  |                        |
|---|--|--|--|------------------------|
| X |  |  | ACWF began assessing a 0.5% annual fee on all loans in 2001. | X IUP                  |
|   |  |  |  | X Loan Agreements      |
|   |  |  |  | Repayment transactions |

- a. What is the fee rate charged and on what basis (e.g., percentage of closing amount, principal outstanding, principal repaid, etc.)?

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  | A 0.5% administrative fee is calculated based on the principal balance. When a payment is received from a borrower, ADEC immediately deducts the fee amount and deposits it outside the Fund in the Fee Account. |  |
|--|--|--|--|--|

|   |  |   |  |   |
|---|--|---|--|---|
|   |  |   | The ACWF's Audited Financial Statements note that the use of funds from the fee account is restricted to administration expenses for operation of the revolving loan program. Also the Programmatic Terms and Conditions for CWSRF capitalization grants set by EPA Region 10 stipulates that funds generated by fees are to be used only for administrative costs in accordance with 40 CFR 31.25(g)(2), or only as approved in advance by EPA for water quality related activities.  | Audited Financial Statements and EPA grant files, "Programmatic Terms and Conditions" for FY2003 AK CWSRF capitalization grant. |
|   | b. Are fees being used in accordance with program requirements?  | X |  |   |
| 2   | Does the State periodically evaluate the use of fees relative to loan terms to set appropriate total charges to borrowers and assess long-term funding needs to operate the program? |   | Since fees were implemented in 2001, there has been no additional evaluation of the fees relative to loan terms and the impact on borrowers and loan demand. Decisions about adjusting loan rates appear to be made without concurrent consideration of fee rates adjustments. Since the fee account has accumulated approximately \$1.3M in funds for future program administration costs, it would be appropriate for the ACWF to evaluate fee charges on a regular annual basis to determine if the extra costs to the borrowers for fees is warranted. | Staff interview, and Notes to Financial Statements, narrative on Administrative Fees (Audit Report pg 19, note # 8)             |
|   |  | X |  |   |
| 3   | Does the State have procedures for accounting and reporting on its use of fees?  |   | Program staff for ACWF calculate the fee amount from each payment received and directs the finance/admin department to apply the specified amount to the fee account. Both the Annual Report and the Individual Audit report on the amount of fees collected and the balance in the fee account.   |   |
|   |  | X |  |   |
| <b>2.8 Assessment of Financial Capability and Loan Security</b> |  |   |  |   |
| 1   | Does the State have procedures for assessing the financial capability of assistance recipients? (CW only)  | X | Every loan application has a Financial Capacity Assessment checklist that is completed by the Project Engineer. ADEC has also contracted with the Boise State University Environmental Finance Center (EFC) to conduct financial capacity assessments for some loan applicants and current loan recipients.  | X Financial Capability Review Procedures<br>X Loan applications<br>X Project Files  |
| 2   | Are the financial capability policies and procedures being followed? (CW only)   | X |  | X Financial Capability Review Procedures<br>X Loan approval documentation<br>X Project Files                                    |
| 3   | Does the state have procedures for assessing the technical, financial, and managerial capability of assistance recipients? (DW only)   |   | X  | Capability Review Procedures<br>Loan applications<br>Project Files  |

|   |  |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|--|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4 | Are the technical, financial, and managerial review procedures being followed? (DW only) | <div style="border-bottom: 1px solid black; width: 20px; margin: 0 auto;"></div> <div style="border-bottom: 1px solid black; width: 20px; margin: 0 auto;"></div> <div style="border-bottom: 1px solid black; width: 20px; margin: 0 auto; text-align: center;">X</div> | <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> | <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 2px;"></div> | <div style="border-bottom: 1px solid black; 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|   |   |               |               |               |   |
|---|---|---------------|---------------|---------------|---|
| 2 | Does the State have a long-term financial plan to direct the program?   | <u>      </u> | <u>      </u> | <u>      </u> | Financial planning is limited to monitoring the interest earnings and ensuring they are sufficient to payoff the state match bonds, available administrative monies, and the amount of capital available for new loans during the current fiscal year.  |
|   |   |               | X             |               |   |
|   | a. Was financial modeling used to develop the plan?   | <u>      </u> | <u>      </u> | <u>      </u> | ACWF Staff utilized a model developed in-house to project the impact of lowering interest rates on all existing loans.  |
|   |   | X             |               |               |   |
|   | b. Is the plan periodically reviewed and updated?   | <u>      </u> | <u>      </u> | <u>      </u> | Planning discussions with management are limited and upper management rarely asks to talk about long-range planning. When ADEC proposed lowering the interest rates on all existing loans EPA indicated that we would like to re-evaluate this decision and the impact on the fund after it had been in place for a year as EPA's modeling showed a greater impact on the fund than ADEC's. |
|   |   |               | X             |               |   |
|   | c. Does planning address types of assistance and terms, use of leveraging, and transfers or cross-collateralization between programs? | <u>      </u> | <u>      </u> | <u>      </u> | ACWF is planning to transfer \$15M from the CWSRF program to the DWSRF program in SFY06.  |
|   |   | X             |               |               |   |
| 3 | Are funds disbursed to assistance recipients in a timely manner?  | <u>      </u> | <u>      </u> | <u>      </u> | ACWF Financial Indicator for disbursements is at 72.5%, on par with Region 10 average of 73.2%  |
|   |   | X             |               |               |   |
| 4 | Has the State resolved any issues related to loan restructuring, the potential for defaults, and the timeliness of loan repayments?   | <u>      </u> | <u>      </u> | <u>      </u> | The SFY04 audit report states that there have been no defaults and only one late payment to the ACWF loan program   |
|   |   | X             |               |               | Audit 2004, pg 7  |
| 5 | Are net bond proceeds, interest earnings, and repayments being deposited into the fund?   | <u>      </u> | <u>      </u> | <u>      </u> | Repayments and interest earnings are properly presented in the Statement of Cash Flows. A State accounting system query confirmed the deposit of the state match funds  |
|   |   | X             |               |               | Audit report (financial statements of the Annual Report) show repayments, interest earnings, and state match inflow on the Statement of Cash Flows (page 11)  |
| 6 | If the State leverages, is its leveraging activity consistent with the accepted leveraging structure?                                 | <u>      </u> | <u>      </u> | <u>      </u> |   |
|   |   |               |               | X             |   |
| 7 | Are leverage and state match bond documents consistent with SRF regulations?  | <u>      </u> | <u>      </u> | <u>      </u> | State match bond documents  |
|   |   | X             |               |               |   |

ATTACHMENT II - FILE REVIEWS

KAKTOVIK; 635041

| Item Description   | What, Where & How Met   | Explanation of requirement (if needed)  |
|--|---|---|
| Project Name   |   | Kaktovik Sewer Improvements   |
| Project Loan Number: 635041, 635041.1  |   | Amended loan agreement is 635041.1  |
| Date of Loan: April 13, 2001   |   | Increase to loan signed Oct 22, 2001  |
| Project Description: Kaktovik sewage disposal system to replace the existing "honey-bucket" collection system. | SFY01 IUP and in SFY04 Annual Report  | The sewer project will use a direct-bury (trenching) utilities system.  |
| Amount of Loan, \$500,000, then \$15,000,000   | Loan agreements in file   |   |
| Need for Project   | Discussion of need is included in the project Plans & Specs document. An abbreviated statement of need is in the ACWF IUP for SFY2001 | Loan application document describes need for project as follows: "For construction of (water and) wastewater treatment facilities and the installation of buried (water distribution and) sewage collection lines in Kaktovik". |
| Loan Terms (rate/amortization period)  | 10 years at 2.5%  |   |
| Type of assistance under §603(d)   | Direct loan *   | (see notes at end of this document regarding determination of type of assistance provided by the NSB Kaktovik SRF loan).  |
| Financial Capability Assessment/Repayment  | No additional financial   | Previous ACWF experience with North Slope   |

| Item Description  | What, Where & How Met  | Explanation of requirement (if needed)   |
|---|--|--|
| Source Evaluation   | capability assessments were performed for this particular loan.              | Borough and review of audited CAFR satisfied the need to verify financial capability ( in the opinion of ADEC project engineer)                                      |
| Loan Security Provisions  | Loan Agreement   | <u>Section 4.9.</u> The provisions of AS 37.15.575 relating to state aid interception apply to the loan made under this agreement                                    |
| Facility Plan available/Approved  | Yes - Summary Document reviewed.   | Reviewed the Summary of "North Slope Borough Village Water & Sewer Projects" which encompassed 7 water different projects to be constructed for North Slope Borough. |
| Plans & Specs Approval  | Yes - Summary Document reviewed.   | Reviewed the Summary of "North Slope Borough Village Water & Sewer Projects" which encompassed 7 water different projects to be constructed for North Slope Borough. |
| Bid Advertisement and Approval  | Sole Source contract   | North Slope Borough went through "extensive process" to determine/ accept sole source provider (per ADEC Project Engineer).  |
| MBE/WBE Compliance  | OK- Copies / Documentation included in file.                                 | Noted document that assured compliance by the North Slope Borough with the "Six Affirmative Steps" required by recipients of Federal assistance funds.               |
| Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency] | One year certification due fall 2005 ( per e-mail from ADEC Project Engineer | Operations were projected to begin in fall of 2004.  |

| Item Description   | What, Where & How Met                      | Explanation of requirement (if needed)   |
|--|--|--|
|  | 07/18/05)                                  |  |
| <b>BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]</b>   | Check-off indicated on ACWF SRF checklist  |  |
| <b>Eligible Categories [§201(g)(1)] [equivalency]</b>  | Check-off indicated on ACWF SRF checklist  | Project is construction of a sewage disposal system.   |
| <b>Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]</b> | Check-off indicated on ACWF SRF checklist  | EPA Financial Analyst, Chris Castner, inspected and reviewed the pre-formatted checklist that was part of the Kaktovik file, that ACWF uses to address most of the items required for equivalency/ cross-cutters requirements. Items noted as being addressed by ACWF staff and / or review processes are indicated hereafter by the statement: "Check-off indicated on ACWF SRF checklist". |
| <b>Infiltration/Inflow §201(g)(3) [equivalency]</b>  | Check-off indicated on ACWF SRF checklist  |  |
| <b>Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency]</b>   | "Check-off indicated on ACWF SRF checklist |  |
| <b>Recreation &amp; Open Space [§201(g)(6)] [equivalency]</b>  | "Check-off indicated on ACWF SRF checklist |  |
| <b>CSO Funding Limitations [§201(n)(1-2)] [equivalency]</b>  | Check-off indicated on ACWF SRF checklist  |  |
| <b>Capital Financing Plan [§201(o) [equivalency]]</b>  | Check-off indicated on ACWF SRF checklist  |  |

| Item Description  | What, Where & How Met  | Explanation of requirement (if needed)  |
|---|--|---|
| Water Quality Management Plans [§204(a)(1)] [equivalency] | Check-off indicated on ACWF SRF checklist  |   |
| Operation and Maintenance [§204(a)(2)] [equivalency]      | Operations and Maintenance manual noted , and operator training in correct start-up procedures cited by ADEC Project Engineer. | Copy of O&M Manual cover provided by ADEC Project Engineer. Also ADEC Engineer's knowledge of Kaktovik practices of providing operator training. Also project has been meeting discharge permit standards ( e-mail from Dan Garner ADEC Project Engineer July 18, 2005) |
| User Charge System [§204(b)(4)] [equivalency]             | No user charge indicated.  | North Slope Borough's 2004 Consolidated Financial Annual Report (CAFR) states that the loan from the ACWF is to be paid from proceeds from General Obligation bonds ( not revenue bonds).   |
| Collection Systems [§211] [equivalency]                   | Check-off indicated on ACWF SRF checklist  | Wastewater improvements under this loan were necessary due to health and environment concerns.  |
| Cost Effectiveness [§218] [equivalency]                   | Check-off indicated on ACWF SRF checklist  |   |
| Davis Bacon Act [§512] [equivalency]                      | N/A  |   |
| Environmental Review [§511(c)(1)] [equivalency]           | Copy of Environmental Review performed by Bureau of Indian Affairs 9/07/99 included in file.                                   |   |
| Was the appropriate type of environmental                 | Yes - Performed by Bureau  |   |

| Item Description   | What, Where & How Met  | Explanation of requirement (if needed)   |
|--|--|--|
| review conducted   | of Indian Affairs. Result was a finding of non-significance. (FNSI) 09/07/99                                   |  |
| If another agency's environmental review was adopted, is the adoption process appropriately documented | Adoption of the Bureau of Indian Affairs' FNSI is not documented in this file (only a copy itself of the FNSI) |  |
| Public Notice  | Copies of newspaper ads announcing the project and soliciting public comment are included in the file.         |  |
| Public Hearing   | No hearing was held.   |  |
| Was an appropriate range of alternatives evaluated   | Yes - The EIA / FNSI, 09/07/99, documents list the alternatives considered.                                    |  |
| Were other environmental review considerations adequately addressed                                    | Yes - The EIA/ FNSI 09/07/99, documents list the environmental review considerations.                          |  |
| Endangered Species Act   | Check-off indicated on ACWF SRF checklist  | Endangered and Threatened Species are addressed in the Environmental Assessment - FONSI, 09/07/1999, page 11, section 6.4. |

| Item Description                                     | What, Where & How Met                     | Explanation of requirement (if needed)  |
|--|---|---|
| <b>National Historic Preservation Act</b>            | Check-off indicated on ACWF SRF checklist | Also addressed in the Environmental Assessment FONSI 09/07/1999, page 15, section 7.0. "Consultation with Department of Natural Resources, Division of Parks and Outdoor Recreation, Office of History and Archeology. (Joan Dale) Provided a detailed Alaska Heritage Resources Survey for the Kaktovik area." |
| <b>Archeological &amp; Historic Preservation Act</b> | Check-off indicated on ACWF SRF checklist | Statement from Environmental Assessment FONSI 09/07/1999 "For the purpose of 36 CFR 800.9(b), it is anticipated that there will be no known adverse activities occurring on or near to historic and archeological properties."  |
| <b>Wild &amp; Scenic Rivers Act</b>                  | Check-off indicated on ACWF SRF checklist |   |
| <b>Coastal Zone Management Act Compliance</b>        | Check-off indicated on ACWF SRF checklist |   |
| <b>Coastal Barriers Resource Act</b>                 |   | N/A in Region 10  |
| <b>Farmland Protection Act</b>                       | Check-off indicated on ACWF SRF checklist |   |
| <b>E.O. 11990 Wetlands Protection</b>                | Check-off indicated on ACWF SRF checklist | Statement from Environmental Assessment FONSI 09/07/1999 , page 22, section 6.2 " According to the US Army Corps of Engineers, the proposed village water and sewer projects lies in an area previously determined as waters  |

| Item Description                                  | What, Where & How Met   | Explanation of requirement (if needed)  |
|---|---|---|
|   |   | of the United States ...wetlands. A department of Army Nationwide Permit ( NWP) has been issued pursuant to 33 CFR 330 Appendix A, part B, The NWP allows for discharge of material for backfill or bedding for utility lines....etc" |
| <b>E.O. 11888 Floodplain Management Act</b>       | Check-off indicated on ACWF SRF checklist   | "The Corp of Engineers has jurisdiction over floodplain issues." ACWF Project Engineer, oral communication. No documentation is evident.  |
| <b>Clean Air Act Compliance</b>                   | Check-off indicated on ACWF SRF checklist   | "We are aware of, and know of attainment areas...." ACWF Project Engineer, oral communication. No documentation is evident.   |
| <b>Safe Drinking Water Act</b>                    | Check-off indicated on ACWF SRF checklist   |   |
| <b>Civil Rights Act</b>                           | Check-off indicated on ACWF SRF checklist   |   |
| <b>E.O. 11246</b>                                 | Check-off indicated on ACWF SRF checklist   |   |
| <b>MBE/WBE</b>                                    | Check-off indicated on ACWF SRF checklist and copies of documentation included in file. | Noted document that assured compliance by the North Slope Borough with the "Six Affirmative Steps" required by recipients of Federal assistance funds.  |
| <b>E.O. 12898 Environmental Justice</b>           | Check-off indicated on ACWF SRF checklist   |   |
| <b>Small Business &amp; Rural Communities Act</b> | Check-off indicated on  |   |

| Item Description       | What, Where & How Met                     | Explanation of requirement (if needed)  |
|------------------------|---|---|
|                        | ACWF SRF checklist                        |   |
| Uniform Relocation Act | Check-off indicated on ACWF SRF checklist |   |
| Debarment & Suspension | Check-off indicated on ACWF SRF checklist | "Contractor was not on the debarment list at the time the contract was awarded" per e-mail from ADEC Project Engineer July 18, 2005 |

**Notes regarding determination of type of assistance provided by this Kaktovik SRF loan.**

Documents contained within the Kaktovik project file were examined to determine if the disbursement of \$15,000,000 processed on January 8, 2004 was for reimbursement of eligible costs ( and therefore indication the SRF loan was a "direct loan" type of assistance), or if the disbursement was for purposes of retiring or defeasement of local debt for costs incurred before the SRF loan was agreement was made, (and therefore a "refinancing' loan).

The original loan application (March, 2001), as well as the subsequent requests for increases (September 12, 2001) were examined. The original loan acceptance was signed on August 2, 2001; the loan increase was accepted / signed on November 9, 2001. The loan application and requests for increased loan amounts state the purpose of the SRF loan - ..."for construction of (water and) wastewater treatment facilities and the installation of buried (water distribution and) sewage collection lines in Kaktovik". The original loan application (the application form) lists other sources of funding as North Slope Borough general obligation bonds (G.O. bonds) totaling \$43 million. The GO bonds mentioned were not indicated to be exclusively or primarily for funding of water or sewer projects.

The letter from the North Slope Borough requesting the loan increase to \$15 million (Sept 12, 2001) refers to the preliminary schedule of values submitted by the contractor that identifies the sewer portion of the Kaktovik project as having a cost of approximately \$18.4 million.

Additional documentation of costs incurred was provided by Mr. Dan Garner, the ADEC Project Engineer assigned to the Kaktovik project. Dan Garner provided a 3 ring binder that included copies of the requests for payment from the construction contractor doing the work at Kaktovik, to ASCG corp. (the consulting Engineer firm overseeing the project). Copies of the recommendation by ASCG corp. after they reviewed the invoices from the construction company were also included in this 3 ring binder. Sometimes the recommendations included recommendations to adjust the total amounts payable from the invoices, excluding certain costs as either ineligible or insufficiently documented. The presence of these recommendations provides the records needed to ascertain that review of costs submitted was being done before ASCG corp. made their recommendations to ADEC / ACWF for payment of the submitted invoices. The time span of invoices submitted and ASCG corp. recommendations observed in the 3 ring binder was from summer of 2001 through end of the calendar year 2003. Note that the original date of the loan agreement was signed in April, 2001 and that invoices submitted were for work that began after the original loan agreement was signed. Based on the documents reviewed, as well as direct questioning of ADEC staff familiar with the Kaktovik ACWF loan, it was concluded that the Kaktovik ACWF loan # 635041 was a "direct loan" for reimbursement of eligible costs.

This is consistent with the EPA's ACH cash draw rules that stipulate that cash draws for portions of project costs incurred after a loan agreement is signed, will be treated as a loan. (Guide to Using EPA's Automated Clearing House for Drinking Water State Revolving Fund Program, page 21 and page 22 example # 2).

Further consultation between EPA's Region 10 CWSRF Financial Analyst and Headquarters CWSRF staff confirmed this interpretation.

UNALASKA - 879011

| Item Description  | What, Where & How Met                                 | Explanation of requirement (if needed)   |
|---|---|--|
| PROJECT NAME  | Loan Agreement 1/17/97                                | Unalaska Upper Haystack Sewer  |
| Project Loan Number   | Loan Agreement 1/17/97                                | 879011   |
| Date of Loan  | Loan Agreement 1/17/97                                | 1/17/97  |
| Project Description   | Loan Agreement 1/17/97                                | The project includes the construction of approximately 4,090/feet of 8-inch ductile iron pipe sewer line and related appurtenances. The new sewer lines will serve the currently unsewered areas of upper Haystack Hill in Unalaska. |
| Amount of Loan  | 1) Garner Letter 1/29/01<br>2) Loan Agreement 1/17/97 | a. Letter details new, lower finance charge of 2.5%. Loan Amendment for signature and Proposed Repayment Scheduled for community enclosed. Total loan \$770,109 determined from Annual Report draws.<br>b. \$800,000                 |
| Need for Project  | Unalaska Sewer System Evaluation Study 2/95           | During heavy rains, flows to the plant can increase by more than 200,000 gallons per day (gpd). The average flow to the WWTP is approximately 378,000 gpd.   |
| Loan Terms (rate/amortization period)                       | Loan Agreement 1/17/97                                | 20 years, 3.75%  |
| Type of assistance under §603(d)                            | Loan Agreement 1/17/97                                | Direct loan  |
| Financial Capability Assessment/Repayment Source Evaluation | Financial Information Form 8/30/96                    | All information necessary found, no actual evaluation though. New assessment agreed upon in PER not yet in effect.   |
| Loan Security Provisions                                    | Loan Agreement 1/17/97                                | <b>Section 4.9.</b> The provisions of AS 37.15.575 relating to state aid   |

| Item Description                        | What, Where & How Met  | Explanation of requirement (if needed)   |
|---|--|--|
|   |  | interception apply to the loan made under this agreement.<br><br>Revenue from project backed by GO pledge backed by state-aid intercept (Deems)  |
| <b>Facility Plan available/Approved</b> | 1) Categorical Exclusion and Facility Plan Acceptance 3/12/99<br>2) Unalaska Sewer System Evaluation Study 2/95  | 1) In addition, information provided in the <i>Haystack and Trapper Drive Sewer Main Improvements Plans and Specifications</i> , and the <i>1995 Unalaska Sewer System Evaluation Study</i> satisfied the Facility Plan requirements of 18 ACC 76.030(4).<br>2) Sewer System Evaluation Study in file.   |
| <b>Plans &amp; Specs Approval</b>       | 1) Plans and Specifications Approval 5/15/97<br>2) P&S Submittal letter 3/26/97<br><br>COPY OF P&S SHOULD ALWAYS BE IN FILE                                  | 1) I have reviewed the plans and specifications, including Addendum No. 1, for the subject project, and give approval for construction of the sewer and water system improvements.<br>2) Attached in the final set of Plans and Specifications for the above referenced project together with the Special Provisions section of the Specifications. I have address your concerns regarding water/sewer separations at crossings with caution notes as well as listing invert elevations at designed water/sewer crossings. |
| <b>Bid Advertisement and Approval</b>   | 1) Construction Contract, Bid Tabs, and NTP Concurrence 11/20/97<br>2) Bid Tabulations<br>3) <i>Dutch Harbor Fisherman</i><br>4) <i>Anchorage Daily News</i> | 1) I have reviewed your construction contract with South Coast, Inc. on the subject project, and give concurrence. I found the bid tabulations to show that South Coast was the lowest responsible bidder.<br>2) Bid tabulation for all bids received available in file.<br>3) Invitation to bid published 4/3; 4/10; 4/17; 4/24 1997 (No notarized statement or proof from Newspaper)<br>4) Invitation to bid published 3/31; 4/2; 4/4; 4/7; 4/9; 4/11; 4/14;   |

| Item Description   | What, Where & How Met  | Explanation of requirement (if needed)   |
|--|--|--|
|  |  | 4/16; 4/18; 4/21; 4/23; 4/25 1997 (No notarized statement or proof from Newspaper)   |
| <b>MBE/WBE Compliance</b>  | 1) MBE/WBE Participation list<br>2) Argetsinger Fax 5/28/98<br>3) Loan Agreement                                       | 1) Participation list in file. (NEED CONTACT LIST)<br>2) This letter will serve to certify that South Coast, Inc. is 100% owned by Klukwan, Inc., a Village Corporation established under the Alaska Native Claims Settlement Act (ANCSA). Klukwan, Inc pres. signed.<br>3) <b>Section 3.9</b> The City will comply with the minority and women owned business requirements of the State Revolving Loan Fund program, and will require its contractors to also meet these requirements.  |
| <b>Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]</b> | 1) Acceptance of Project Affirmative Certification 11/4/98<br><br>2) Date of Initiation of Operation Approval 11/20/97 | 1) I accept the Affirmative Certification dated October 15, 1998 by the City of Unalaska for the Upper haystack Sewer Main Improvements project. The accepted date of Initiation of Operation was October 15, 1997. Issuance of the Affirmative Certification satisfies Section 5.3 of the January 17, 1997 Alaska Clean Water Loan Agreement for this project.<br>2) As requested in your letter dated November 13, 1997, I accept October 15, 1997 as the date of initiation of operation for the Upper Haystack Sewer Improvements Project. This notification satisfies the first part of 18 ACC 76.070 to the Alaska Clean Water Fund Regulations. |
| <b>BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]</b> | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99<br><br>P&S NOT AVAILABLE   | Project only includes construction of wastewater interceptors. No changes or expansion of treatment plant.   |

| Item Description   | What, Where & How Met  | Explanation of requirement (if needed)   |
|--|--|--|
| <b>Eligible Categories [§201(g)(1)] [equivalency]</b>  | <ol style="list-style-type: none"> <li>1) SRF Cincinnati Checklist for Alaska 1/20/99 &amp; 3/15/99</li> <li>2) Loan Disbursement Request #4 - 8/11/03</li> <li>3) Loan Disbursement Request #3 - 4/23/03</li> <li>4) Loan Disbursement Request #1&amp;2 - 2/7/03</li> </ol> | <ol style="list-style-type: none"> <li>1) New interceptor - 100% eligible.</li> <li>2) This is the fourth disbursement request up to March 30, 1998. After this disbursement, total project expenditures represent approximately 96% of the awarded loan amount. (\$52,655)</li> <li>3) Loan Request No. 3 for loan period through-November 30, 1997, after payment total represents approximately 89.7% of the maximum loan amount. (\$88,278)</li> <li>4) Loan Request No. 1&amp;2 for loan period through September 30, 1997, after payment total represents approximately 78.6% of the maximum loan amount. (\$629,176)</li> </ol> |
| <b>Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]</b> | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99  | N/A - wastewater interceptors  |
| <b>Infiltration/Inflow §201(g)(3) [equivalency]</b>  | <ol style="list-style-type: none"> <li>1) SRF Cincinnati Checklist for Alaska 1/20/99 &amp; 3/15/99</li> <li>2) Unalaska Sewer System Evaluation Study 2/95</li> </ol>   | <ol style="list-style-type: none"> <li>1) February 1995 "Unalaska Sewer System Evaluation Study" shows that I/I for the system within the EPA defined limits.</li> <li>2) Section 3 of SSES contains a detailed I/I Analysis</li> </ol>  |
| <b>Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency]</b>   | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99  | N/A - wastewater interceptors  |
| <b>Recreation &amp; Open Space</b>   | SRF Cincinnati Checklist for   | The project only includes the installation of wastewater interceptors  |

| Item Description  | What, Where & How Met  | Explanation of requirement (if needed)  |
|---|--|---|
| <b>[\$201(g)(6)] [equivalency]</b>                                    | Alaska 1/20/99 & 3/15/99   | within right of ways (established)  |
| <b>CSO Funding Limitations<br/>[\$201(n)(1-2)] [equivalency]</b>      | SRF Cincinnati Checklist for<br>Alaska 1/20/99 & 3/15/99   | N/A Not CSO   |
| <b>Capitol Financing Plan [\$201(o)<br/>[equivalency]]</b>            | SRF Cincinnati Checklist for<br>Alaska 1/20/99 & 3/15/99   | The City operates on a 4-year capital improvement plan currently<br>Unalaska is working on 2000-2004.   |
| <b>Water Quality Management<br/>Plans [\$204(a)(1)] [equivalency]</b> | SRF Cincinnati Checklist for<br>Alaska 1/20/99 & 3/15/99   | N/A - Sewer collection upgrade piping within existing subdivision. No<br>direct or indirect impacts to an S208 plan an/or S303(d) listed water<br>body.   |
| <b>Operation and Maintenance<br/>[\$204(a)(2)] [equivalency]</b>      | Operation and Maintenance<br>Documentation Approval<br>10/25/98  | I approve the operations and maintenance documentation submitted<br>for the Upper Haystack Sewer Main Improvements project, and find<br>that this submittal satisfies 18 ACC 76.060(a)(5) of the Alaska Clean<br>Water Fund regulations.  |
| <b>User Charge System<br/>[\$204(b)(4)] [equivalency]</b>             | 1) SRF Cincinnati Checklist<br>for Alaska 1/20/99 &<br>3/15/99<br><br>2) Sewer Use Ordinance and<br>Fee System Approval<br>10/25/98<br><br>3) ACW/DWF Loan Program<br>Sewer Use Ordinance &<br>User Charge Checklist<br>10/22/98 | 1) A sewer use ordinance and fee system was approved on October<br>25, 1998 for this project.<br>2) I have reviewed the most current user fee system and ordinance<br>governing the sewer utility for the City of Unalaska, and give<br>approval for the referenced project. The Sewer Utility Use<br>Rates and Fee Schedule as enacted under Ordinance 94-20<br>(effective July 1, 1994), and Sewer Utility regulations detailed<br>under Title 10.16 were found to satisfy 18 AAC 76.060(a)(6) of<br>the Alaska Clean Water Fund regulations.<br>3) State Checklist complete with dates, notes, and ordinance<br>numbers. |
| <b>Collection Systems [\$211]<br/>[equivalency]</b>                   | SRF Cincinnati Checklist for<br>Alaska 1/20/99 & 3/15/99   | Wastewater improvements under this loan were necessary due to<br>health and environment concerns.   |

| Item Description  | What, Where & How Met   | Explanation of requirement (if needed)  |
|---|---|---|
| <b>Cost Effectiveness [§218] [equivalency]</b>  | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99   | Value engineering not required since project is for less than \$10 million.   |
| <b>Davis Bacon Act [§512] [equivalency]</b>   | NA  | Project signed after Oct. 94  |
| <b>Environmental Review [§511(c)(1)] [equivalency]</b>  | <ol style="list-style-type: none"> <li>1) SRF Cincinnati Checklist for Alaska 1/20/99 &amp; 3/15/99</li> <li>2) Categorical Exclusion and Facility Plan Acceptance 3/12/99</li> </ol> | <ol style="list-style-type: none"> <li>1) A 30-day public notice of the Categorical Exclusion (CE) issued for this project was published on August 31, 1996.</li> <li>2) For your files, I would like to summarize the environmental review portion of the subject project. As shown in the loan files, the city of Unalaska's request for a Categorical Exclusion (CE) was reviewed by ADEC and found acceptable. The CE was published on August 21, 1996. During the public comment period, no new information or comments were received. Therefore, the Categorical Exclusion became effective 30-days after the first published date, satisfying the requirements under 18 ACC 76.040 of the ACWF Revolving Loan Fund Regulations.</li> </ol> |
| <b>Was the appropriate type of environmental review conducted</b>   | ACW/DWF Categorical Exclusion Checklist   | Completed CE Checklist to determine if eligible for CE.   |
| <b>If another agency's environmental review was adopted, is the adoption process appropriately documented</b> | NA  | ADEC issued CE  |
| <b>Public Notice</b>  | <i>Alaska Daily News</i> 9/24/96  | That the annexed is a copy of an advertisement as it was published in regular issues (and not in supplemental form) of said newspaper on 8/31; 9/4; 9/13; 9/19 1996   |

| <b>Item Description</b>  | <b>What, Where &amp; How Met</b>                      | <b>Explanation of requirement (if needed)</b>   |
|--|---|---|
| <b>Public Hearing</b>  |   |   |
| <b>Was an appropriate range of alternatives evaluated</b>                  | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | N/A - Categorical Exclusion completed with project costs discussed  |
| <b>Were other environmental review considerations adequately addressed</b> | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | N/A - project addressing needs of existing homes.   |
| <b>Endangered Species Act</b>  | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | No impact anticipated. A CE was issued for this project on August 31, 1996. Working within existing right-of-ways previously disturbed. |
| <b>National Historic Preservation Act</b>                                  | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | No impact anticipated. A CE was issued for this project on August 31, 1996. Working within existing right-of-ways previously disturbed. |
| <b>Archeological &amp; Historic Preservation Act</b>                       | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | No impact anticipated. A CE was issued for this project on August 31, 1996. Working within existing right-of-ways previously disturbed. |
| <b>Wild &amp; Scenic Rivers Act</b>  | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | N/A   |
| <b>Coastal Zone Management Act Compliance</b>                              | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | No impact anticipated. A CE was issued for this project on August 31, 1996. Working within existing right-of-ways previously disturbed. |
| <b>Coastal Barriers Resource Act</b>                                       | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | N/A for this project  |
| <b>Farmland Protection Act</b>   | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99 | N/A for Alaska  |
| <b>E.O. 11990 Wetlands</b>   | SRF Cincinnati Checklist for                          | No environmental concerns anticipated. Categorical Exclusion issued   |

| Item Description   | What, Where & How Met   | Explanation of requirement (if needed)  |
|--|---|---|
| <b>Protection</b>  | Alaska 1/20/99 & 3/15/99  | August 31, 1996.  |
| <b>E.O. 11888 Floodplain Management Act</b>                  | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | No impact anticipated. A CE was issued for this project on August 31, 1996. Working within existing right-of-ways previously disturbed  |
| <b>Clean Air Act Compliance</b>                              | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | No impact anticipated. A CE was issued for this project on August 31, 1996. Working within existing right-of-ways previously disturbed  |
| <b>Safe Drinking Water Act</b>                               | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | N/A - this project will help reduce impact of on-site wastewater systems on the environment.  |
| <b>Civil Rights Act</b>                                      | Signed 4700-4 form 3/18/99  | Signed EPA Form 4700-4 Pre-award Compliance Review Report for All Applicants Requesting Federal Financial Assistance  |
| <b>E.O. 11248 - Equal Employment Opportunity</b>             | 1) SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99<br>2) Signed form 10/21/98 | 1) This is covered in Section 3.3 of the January 17, 1997 loan agreement and the completed EEO acknowledgment form for this form.<br>2) Signed EEO Acknowledgement Statement. |
| <b>E.O. 12898 Environmental Justice</b>                      | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | This is covered under Section 3.0 of the loan agreement.  |
| <b>Small Business &amp; Rural Communities Act</b>            | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | N/A - program requirements met by all rural areas outside of Anchorage.   |
| <b>Demonstration Cities and Metropolitan Development Act</b> | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | N/A for Alaska  |
| <b>Uniform Relocation Act</b>                                | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | Construction was done in established right-of-ways. w/no property acquired.   |
| <b>EO 12549 Debarment &amp; Suspension</b>                   | SRF Cincinnati Checklist for Alaska 1/20/99 & 3/15/99                               | Contractor not found on disbarment list. Copy of debarment list for all companies operating in Alaska provided (excellent documentation!)                                     |

**WASILLA - 905041**

| <b>Item Description</b>               | <b>What, Where &amp; How Met</b>                                 | <b>Explanation of requirement (if needed)</b>   |
|---------------------------------------|--|---|
| <b>Project Name</b>                   | Loan Agreement 8/7/02  | Wasilla - Sewer Main Improvements   |
| <b>Project Loan Number</b>            | Loan Agreement 8/7/02  | 905041  |
| <b>Date of Loan</b>                   | Loan Agreement 8/7/02  | 8/7/02  |
| <b>Project Description</b>            | Loan Agreement 8/7/02  | The project will provide funding for planning and design of Phase II of the City's sewer main improvements. Phase II includes extending sewer service to South Mack Drive (formerly Church Road South). Phase II will extend sewer mains to areas not previously on the City's collection system, and will eliminate potential for contamination of groundwater by on-site systems. |
| <b>Amount of Loan</b>                 | 3) ACWF Loan Final Decrease 12/30/03<br>4) Loan Agreement 8/7/02 | 1) \$44,353<br>2) \$50,000  |
| <b>Need for Project</b>               | Loan Questionnaire 3/02  | Planning Document. With the rapid expansion the City is experiencing, septic system use will increase without an expanded sewer utility. Groundwater quality will be adversely impacted by a high use of septic systems. Groundwater will be protected from an expanded sewer utility by providing secondary treatment for the disposal of wastewater.                              |
| <b>Loan Terms (rate/amortization)</b> | Loan Agreement 8/7/02  | <b>Section 4.2.</b> The city agrees to repay the principal amount   |

| Item Description | What, Where & How Met | Explanation of requirement (if needed)   |
|------------------|-----------------------|--|
| period)          |                       | <p>and the finance charge rate on all cash draws made to the city according to the repayment schedule, which will be prepared by the department and confirmed by the city following completion of the design plans and specifications or initiation of operation of the facility, as appropriate.</p> <p>The City may request an increase to the loan to allow for proceeding with construction. If the loan increase request is made within one year following completion of the design plans and specifications, preparation of the repayment schedule may be delayed until initiation of operation of the facility. The repayment schedule for the actual amount of loan payments made to the city will provide that:</p> <ul style="list-style-type: none"> <li>a) the City will pay a finance charge of 2.5 percent on each disbursement. Accrual of interest will begin one year after the date of the first disbursement to the City.</li> <li>b) the loan amount will be paid back within 20 years following completion of the plans and specifications. If a loan increase for construction is made within one year following completion of the design plans and specifications, the repayment may be delayed until one year following initiation of operations of the facility. Repayment of the loan will be made with either equal annual principal payments plus the finance charge of equal annual total payments including the finance charge.</li> </ul> |

| Item Description  | What, Where & How Met                     | Explanation of requirement (if needed)   |
|---|---|--|
|   |   | <p>Other repayment methods may be negotiated with the Department.</p> <p>c) the first loan repayment will be due one year following completion of plans and specifications or initiation of operation of the facility, as appropriate under Section 4.2.b.</p> <p><b>Section 4.6.</b> If a payment is received by the Department more than 30 days after it is due, the City agrees to pay a late charge of five percent of the payment. Interest on the unpaid balance will continue to accrue at the finance charge rate and must be paid in addition to the late charge. Payments in arrears over 90 days, will be referred to the Attorney Generals Office for collection.</p> |
| Type of assistance under §603(d)                            | Loan Agreement 8/7/02                     | Direct loan  |
| Financial Capability Assessment/Repayment Source Evaluation | Financial Information Form 6/20/02        | All information necessary found, no actual evaluation though. New assessment agreed upon in PER not yet in effect.   |
| Loan Security Provisions                                    | Loan Agreement 8/7/02                     | <b>Section 4.9.</b> The provisions of AS 37.15.575 relating to state aid interception apply to the loan made under this agreement.   |
| Facility Plan available/Approved                            | NA  | Loan is for Planning & Design (sewer main pipe)  |
| Plans & Specs Approval                                      | Plan Review/Approval to Construct (Skibo) | "Finding other details of the plans satisfactory, approval to construct is granted for the installation of the sewer main with   |

| Item Description   | What, Where & How Met   | Explanation of requirement (if needed)   |
|--|---|--|
|  | 8/29/02   | appurtenances for the concerns of the Department, subject to the following conditions."  |
| <b>Bid Advertisement and Approval</b>  | NA  | Loan is for Planning & Design (sewer main pipe)  |
| <b>MBE/WBE Compliance</b>  | 4) MBE/WBE Contact list<br>5) Loan Agreement 8/7/02   | 4) Contact list and quarterly report in file.<br>5) <b><u>Section 3.9</u></b> The City will comply with the minority and women owned business requirements of the State Revolving Loan Fund program, and will require its contractors to also meet these requirements.   |
| <b>Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]</b> | Phillips email 12/23/03   | Sept. 30, 2003 deemed "end of design."   |
| <b>BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]</b> | NA  | Loan is for Planning & Design (sewer main pipe)  |
| <b>Eligible Categories [§201(g)(1)] [equivalency]</b>                                | 5) Loan Disbursement Request #5 - 12/30/03<br><br>6) Loan Disbursement Request #4 - 8/11/03 | 1) This is the 5 <sup>th</sup> and final loan disbursement request representing project costs from July 1, 2003 through October 31, 2003. After this disbursement, reimbursed project expenditures represent 100% of the final loan amount. (\$4,952)<br>2) This is the 4 <sup>th</sup> loan disbursement request representing project costs from April 1, 2003 through June 30, 2003. |

| Item Description   | What, Where & How Met  | Explanation of requirement (if needed)  |
|--|--|---|
|  | <p>7) Loan Disbursement Request #3 - 4/23/03</p> <p>8) Loan Disbursement Request #2 - 2/7/03</p> <p>9) Loan Disbursement Request #1 - 12/27/02</p> | <p>After this disbursement, reimbursed project expenditures represent approximately 79% of the maximum loan amount. (\$6,730)</p> <p>3) This is the 3<sup>rd</sup> loan disbursement request representing project costs from January 1, 2003 through March 31, 2003. After this disbursement, reimbursed project expenditures represent approximately 65.3% of the maximum loan amount. (\$7,971)</p> <p>4) This is the 2<sup>nd</sup> loan disbursement request representing project costs from December 1, 2002 through December 31, 2002. After this disbursement, reimbursed project expenditures represent approximately 49.4% of the maximum loan amount. (note to self: individual engineers billable hours attached. Good job!) (\$3,202)</p> <p>5) This is the 1<sup>st</sup> loan disbursement request representing project costs from September 1, 2002 through November 30, 2002. After this disbursement, reimbursed project expenditures represent approximately 43% of the maximum loan amount. (\$21,498)</p> |
| <b>Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2)</b> | NA   | Loan is for Planning & Design (sewer main pipe)   |

| Item Description  | What, Where & How Met              | Explanation of requirement (if needed)   |
|---|------------------------------------|--|
| [equivalency]   |                                    |  |
| Infiltration/Inflow §201(g)(3) [equivalency]                          | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency] | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| Recreation & Open Space [§201(g)(6)] [equivalency]                    | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| CSO Funding Limitations [§201(n)(1-2)] [equivalency]                  | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| Capitol Financing Plan [§201(o) [equivalency]]                        | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| Water Quality Management Plans [§204(a)(1)] [equivalency]             | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| Operation and Maintenance [§204(a)(2)] [equivalency]                  | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| User Charge System [§204(b)(4)] [equivalency]                         | Financial Information Form 6/20/02 | City Ordinance Serial No. 99-28 that authorizes the collection of user fees is on file. The fee structure is based on a rate of \$4.45 per thousand gallons. |
| Collection Systems [§211] [equivalency]                               | NA                                 | Loan is for Planning & Design (sewer main pipe)  |
| Cost Effectiveness [§218] [equivalency]                               | NA                                 | Loan is for Planning & Design (sewer main pipe)  |

| Item Description   | What, Where & How Met | Explanation of requirement (if needed)          |
|--|-----------------------|---|
| Davis Bacon Act [§512] [equivalency]   | NA                    | Project signed after Oct. 94                    |
| Environmental Review [§511(c)(1)] [equivalency]  | NA                    | Loan is for Planning & Design (sewer main pipe) |
| Was the appropriate type of environmental review conducted   | NA                    | Loan is for Planning & Design (sewer main pipe) |
| If another agency's environmental review was adopted, is the adoption process appropriately documented | NA                    | Loan is for Planning & Design (sewer main pipe) |
| Public Notice  | NA                    | Loan is for Planning & Design (sewer main pipe) |
| Public Hearing   | NA                    | Loan is for Planning & Design (sewer main pipe) |
| Was an appropriate range of alternatives evaluated   | NA                    | Loan is for Planning & Design (sewer main pipe) |
| Were other environmental review considerations adequately addressed                                    | NA                    | Loan is for Planning & Design (sewer main pipe) |
| Endangered Species Act   | NA                    | Loan is for Planning & Design (sewer main pipe) |
| National Historic Preservation Act   | NA                    | Loan is for Planning & Design (sewer main pipe) |
| Archeological & Historic Preservation Act  | NA                    | Loan is for Planning & Design (sewer main pipe) |

| Item Description                       | What, Where & How Met | Explanation of requirement (if needed)  |
|--|-----------------------|---|
| Wild & Scenic Rivers Act               | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| Coastal Zone Management Act Compliance | NA                    | Not coastal community   |
| Coastal Barriers Resource Act          | NA                    | Not coastal community   |
| Farmland Protection Act                | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| E.O. 11990 Wetlands Protection         | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| E.O. 11888 Floodplain Management Act   | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| Clean Air Act Compliance               | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| Safe Drinking Water Act                | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| Civil Rights Act                       | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| E.O. 11246                             | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| E.O. 12898 Environmental Justice       | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| Small Business & Rural Communities Act | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| Uniform Relocation Act                 | NA                    | Loan is for Planning & Design (sewer main pipe)   |
| Debarment & Suspension                 |                       | State did not require since all work was for design only. Grant condition specifies:<br>Recipient shall fully comply with Subpart C of 40 CFR Part 32, entitled "Responsibilities of Participants Regarding Transactions."<br>Recipient is responsible for ensuring that any lower tier covered transaction, as described in Subpart B of 40 CFR Part 32, entitled "Covered Transactions," includes a term or condition requiring |

| Item Description | What, Where & How Met | Explanation of requirement (if needed)   |
|------------------|-----------------------|--|
|                  |                       | <p>compliance with Subpart C. Recipient is responsible for further requiring the inclusion of a similar term or condition in any subsequent lower tier covered transactions. Recipient acknowledges that failing to disclose the information required under 40 CFR 32.335 may result in the delay or negation of this assistance agreement, or pursuance of legal remedies, including suspension and debarment.</p> <p>Recipient may access the Excluded Parties List System at <a href="http://www.epls.gov">http://www.epls.gov</a>. This term and condition supersedes EPA Form 5700-49, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters."</p> |

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**ATTACHMENT III - DWSRF & CWSRF 4% ADMINISTRATIVE FUNDS MISUSE**

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**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY**  
**REGION 10**  
1200 Sixth Avenue  
Seattle, WA 98101

October 12, 2005

Reply To  
Attn Of: OWW-136

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Lynn Kent, Director  
Division of Water  
Alaska Department of Environmental Conservation  
555 Cordova Street  
Anchorage, AK 99501

**Re: DWSRF and CWSRF 4% Administrative Funds Misuse**

Dear Ms. Kent:

The purpose of this letter is to finalize discussions and negotiations between the Environmental Protection Agency (EPA) and the Alaska Department of Environmental Conservation (ADEC) regarding the repayment of administrative funds improperly used to support non-SRF activities. The attached explanatory sheet describes the process that both agencies followed in arriving at a settlement.

The amount of funds due to EPA to repay previous administrative expenses incorrectly billed to the Clean Water State Revolving Fund (CWSRF) federal capitalization grant is **\$223,155**. State match in the amount of **\$44,642** must also be transferred from the State Treasury to the ACWF account. The same recalculation methodology used for the ADWF results in a negative payback amount

of **-\$44,025**. While this letter does not give ADEC authority to recoup ADWF administrative funds in that amount; ADEC is allowed to draw cash for eligible administrative purposes totaling 4% of each DWSRF capitalization grant. Because the ACWF and ADWF are two different programs funded by two different grants, the negative payback to the ADWF cannot be used to offset the **\$223,155 or \$44,642** amounts. Please note also that the source of repayment cannot be any funds deposited with either the ACWF or ADWF, including loan repayments, loan interest earnings, interest earnings, administrative fees, or state match.

A bill for **\$223,155** is enclosed. Interest will be charged on any money due the Agency beginning 30 days from the date of your receipt of this letter, unless payment is made in full within said 30 days. As indicated, payment by check should be made to the U.S. Environmental Protection Agency, and mailed to the following address:

Mellon Bank, Region X  
P.O. Box 360903M  
Pittsburgh, PA 15251-6903

Once the check has been received by EPA, the entire amount will be posted to a new accounting line for ADEC's CWSRF grant #CS-020001-04, under Site/Project Code 04CD, in the Automated Standard Application for Payments (ASAP) system. Subsequent cash draws from this sub-account can only be for costs incurred in administering the Alaska CWSRF program.

You may appeal this collection action. If you choose to appeal, you must provide a written response, sent by certified letter, return receipt requested, to:

Grants Dispute Coordinator  
U.S. EPA, OMP-145  
Attn: Marie McPeak  
1200 Sixth Avenue  
Seattle, WA 98101

Your appeal should include a copy of this letter, a description of the issues involved in this action, and a concise statement of your objections to our decision to collect the **\$223,155**.

Thank you in advance for your cooperation. If you have any questions concerning this matter, please contact Michelle Tucker, CWSRF Coordinator at (206) 553-1414, or Rick Green, DWSRF Coordinator, at (206) 553-8504.

Sincerely,

Michael F. Gearheard, Director  
Office of Water & Watersheds

Enclosure

cc: Bill Griffith (ADEC)  
Laura Beason (ADEC)

## Enclosure 1

### **Background of Issue and Methodology Used to Address Alaska Clean Water Fund (ACWF) and Alaska Drinking Water Fund (ADWF) 4% Administrative Funds Misuse**

#### **Background:**

In spring 2004, the Environmental Protection Agency (EPA) was alerted by Alaska Department of Environmental Conservation (ADEC) employees familiar with the ACWF and ADWF programs about possible misuse of the 4% administrative set-asides. Employees had been directed by their superiors to charge their time to the administrative allowance under the ACWF and ADWF, even for time spent working on the State's Municipal Matching Grant (MMG) program projects.

The Municipal Grants and Loans (MG&L) section of the ADEC Facility Construction and Operation Division was responsible for overseeing, administering, and providing engineering support for the ADWF, ACWF and a State-funded infrastructure program called the Municipal Matching Grant program. This was a relatively small section and the same engineers typically provided support to the same group of communities for all of these different funding sources. These individuals shepherded a community through the application process, whether it be for a grant or a loan, as well as assisted with planning, environmental review, construction, inspections, project closeout, and other necessary parts of constructing water and wastewater infrastructure.

#### **Methodology:**

In the first phase of examining this issue EPA requested timecard information for any and all ADEC staff members who received support from the 4% Administration Set-Aside for the period of SFY 2004, and for the three prior fiscal years (2001 through 2003). Partial data for SFY 2005 was also provided by ADEC.

Analysis of this information revealed that several ACWF/ADWF engineers, an accounting staff member, and the program manager charged their time during 2001 to 2004 at a straight 50/50 split between ACWF and ADWF. This occurred while other evidence clearly indicated that they were also working on MMG projects during that same time period. Two MG&L engineers who were assigned a total of

seven Alaskan communities to work with on MMG projects actually DID charge a small percentage of their time during this period to a MMG collocation code. However, two other MG&L engineers, who were assigned to work with a total of 20 communities, charged no percentage of their salary during this time period to a MMG collocation code.

This initial analysis implied that the ADWF and ACWF funds had carried more than their fair share of salary support for project engineer, management, and administrative assistance to communities that received grant funding from the MMG program.

EPA subsequently conducted staff interviews in Juneau and compared time recorded on timecards to employee recollections of the same time periods to determine employee estimates of the time spent on various SRF or non-SRF duties. This analysis also showed a similar result; the ADWF and ACWF had borne more than their share of salary support for administering the MMG grant program. A final evidentiary piece was found by examining the new method of employee time accounting implemented in SFY 2005. Under this system, employees had begun charging their time on a daily basis to the appropriate accounting code(s) related to the work they completed each day. Staff members who had formerly charged their time only to the ACWF or ADWF were now charging part of their time to the MMG and/or other programs.

In February 2005 EPA presented to ADEC a series of options for determining the adjustment amounts for the ACWF and ADWF. These options were:

- a) Use the time charged in SFY 2005 under the new time accounting system to retroactively adjust administrative costs to the ACWF and ADWF from 1996-2004 (approximately \$600,000 total payback),
- b) Use the results of employee interviews to adjust administrative charges for the previous periods (approximately \$790,000 total payback),
- c) Complete a detailed analysis of ACWF, ADWF, and MMG projects to determine level of effort on a project by project basis (total payback not determined, analysis only to be conducted only at request of State)
- d) Allow ADEC to conduct its own analysis of the issue and propose an alternate methodology.

ADEC conducted its own analysis over the next several months and countered with a proposed methodology of settling the problem in summer 2005. The analysis undertaken by ADEC actually showed more of a required total adjustment (\$903,000) than that demonstrated by any of EPA's analyses. However, ADEC proposed an alternative approach in regard to repayment of the administrative

funds. This approach involves ADEC reclaiming indirect costs that had not been collected from grants previously awarded for the ACWF and ADWF. The indirect costs essentially serve as an offset to lessen the amount that ADEC must repay.

EPA agreed to this proposal in September 2005 and is now awaiting ADEC's submittal of payment that is being requested in this cover letter. Subsequent Program Evaluation Reports issued by EPA Region 10 for the Alaska DWSRF and CWSRF programs will note that the already-implemented timekeeping system and receipt of the requested payment signal closure and complete resolution of this matter.